Austria Sch22	Indonesia Rp3100	Portugal Esc120
Bahrain Din0.650	Israel NIS3.50	S.Arabia Rls7.00
Belgium BFr48	Italy L1700	Singapore S$4.10
Canada C$1.00	Japan Y600	Spain Pta145
Cyprus C£0.90	Jordan Fils500	Sri Lanka Rup30
Denmark DKr10.00	Kuwait Fils500	Sweden SKr9.00
Egypt E£2.25	Lebanon $L125.00	Switz SFr2.30
Finland Fmk7.00	Lux LFr48	Taiwan NT$65
France FFr6.50	Malaysia Rin4.25	Thailand Bht50
Germany DM2.30	Mexico Pes300	Tunisia Din0.800
Greece Dr120	Morocco Dh6.00	Turkey L600
Hong Kong HK$12	Neth Fl3.00	UAE Dh6.50
Iceland Ikr125	Norway Nkr10.00	USA $1.00
India Rp15	Philippine Pesos40	

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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JAPANESE CARS

EC struggles for a post-1992 policy

Page 4

World News

Early voting returns go against Ozal Government

Turkish voters went to the polls for a referendum on early local elections – widely seen as a vote of confidence in the leadership and liberal economic policies of Prime Minister Turgut Ozal. Returns from half the referendum ballot boxes gave his government only 34.7 per cent of the vote. Earlier story, Page 2

Gromyko Korea visit
Soviet President Andrei Gromyko will pay an official visit to North Korea in mid-October, Tass reported.

Palestinians shot
Israeli troops shot dead an Arab girl and wounded at least 30 Palestinians while dispersing weekend protests against continued occupation of the West Bank and Gaza Strip.

Prague rally
Czech police broke up a peaceful rally for political reform and declared they would use radical measures to check future gatherings.

First woman bishop
Barbara Harris was elected assistant bishop of the US diocese of eastern Massachusetts, first woman bishop in the 70m-strong Anglican communion.

Iceland in crisis
Iceland plunged into political crisis as a two-day-old agreement to form a centre-left Government, itself replacing a collapsed centre-right administration, fell apart.

French local election
France's Socialist Prime Minister Michel Rocard faced his first electoral test after five months in office as voting began in French local elections. An opinion poll showed Mr Rocard's support at 47 per cent, compared with 41 per cent when he took office.

Maldive poll victor
Preliminary results gave Maumoon Abdul Gayoom, running unopposed, 92 per cent of the vote in a referendum to endorse his nomination to a third five-year term at the head of the Indian Ocean state of the Maldives.

Beirut uneasy calm
The Lebanese capital was calm but tense following last week's failure to elect a successor to President Amin Gemayel and the emergence of two rival governments. Page 3

PNG miners' strike
About 100 women and children flew out of the remote copper and gold mining town of Tabubil in Papua New Guinea after riots by workers striking over housing allowances and job classification.

SA bomb explosions
Two bombs exploded in a South African hotel car park and railway station over the weekend. No casualties were reported. The blasts bring to more than 20 the number of bombings this month.

Karachi video war
Five people died in Karachi as Pakistani police moved in to make arrests after an earlier shoot-out between rival video cassette shop owners, when four people were killed.

Billy Carter dies
Billy Carter, younger brother of former US President Jimmy Carter, who gained fame as a wise-cracking "good old boy" of the Deep South, died of pancreatic cancer, aged 51.

Serbian mass rallies
An estimated 70,000 to 100,000 people demonstrated in Novi Sad, in Yugoslavia's Vojvodina province, in continuing unrest between Slavs and ethnic Albanians in the province of Kosovo.

FT legal column
The Financial Times today introduces a weekly column on the legal profession. Appearing every Monday, it will examine such topics as the management and organisation of law firms, relationships between barristers and solicitors, recruitment matters and similar issues.
The Legal Column is on Page 23.

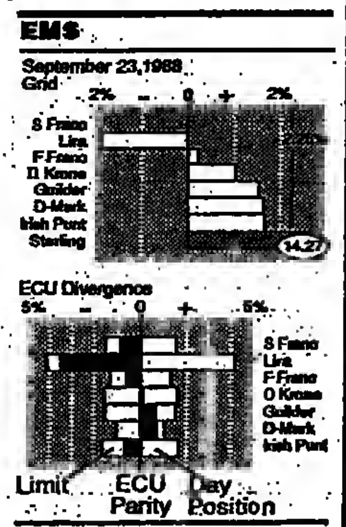
Business Summary

Argentina and World Bank announce loan accord

ARGENTINA and the World Bank announced agreement on a $1.25bn loan package, made up of two sector adjustment loans totalling $700m and investment loans totalling $550m for low cost housing and power projects. Page 30

EUROPEAN Monetary System: Pressure within the EMS intensified towards the end of last week, after the release of French trade figures. These showed a much larger August deficit than expected, and the French franc, as well as the Italian lira, came under pressure.

Central banks intervened on Thursday and Friday, selling small amounts of D-Marks. While currencies stayed within their agreed divergence limits, trading remained nervous, with many dealers concerned that recent pressure may prompt an early re-alignment of Ecu parities.



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies.

FORD components suppliers will have to set up "cloned" production plants next to the company's vehicle assembly factories throughout Europe, under a strategy devised by the US group to halve inventories and improve efficiency. A pilot project is being established at Ford's Saarlouis assembly plant in West Germany. Page 30

WEST Germany has told the US it may charge an insurance premium for any exchange rate guarantees extended to the Airbus project as part of new financing put in place to secure the involvement of Daimler-Benz, the motor and engineering conglomerate. Page 30

MINISTERS from Algeria, Indonesia, Nigeria, Saudi Arabia and Venezuela met in Madrid under the umbrella of Opec's pricing committee. Discussions were expected to cover current weakness of world oil markets and production by some members in excess of quotas.

OLIVETTI, Italian data processing equipment group, is expected to discuss a big corporate reorganisation, in an attempt to strengthen its technical and marketing activities in the 1990s. Page 35

US computer manufacturers, facing a critical shortage of memory components, are developing plans for collaborative efforts to reduce dependency on Japanese chip suppliers. Page 35

RENOUF Corporation, New Zealand banking, industrial and property group, recorded a deficit of NZ$401.2m (US$247.6m) in the year ended June and has had its accounts qualified. Page 35

GEMINA, diversified Italian investment company controlled by Fiat, made a net profit of L107bn ($76.8m) for the year to June, up 20 per cent from the previous year's L89bn. Page 34

CANADA'S first plant to manufacture methyl tertiary butyl ether (MTBE), used as an additive in non-leaded petrol, should get the go-ahead by the end of the year. Page 35

SOVIET UNION turned clocks back an hour for winter. Moscow is now three hours ahead of Greenwich Mean Time. Cyprus clocks also changed, bringing the country two hours ahead of GMT.

G7 agrees commitment to exchange rate stability

By Philip Stephens, Economics Correspondent, in Berlin

LEADING industrial nations this weekend signalled their intention to promote calm on financial markets in the run-up to November's US presidential election with a renewed commitment to exchange rate stability.

Finance ministers and central bankers of the G7 nations – the US, Japan, West Germany, France, Britain, Canada and Italy – said that they had endorsed the present pattern of exchange rates on foreign exchange markets.

But a communiqué released after several hours of talks ahead of the annual meeting of International Monetary Fund created considerable confusion by omitting the direct references to the dollar which had appeared in their statements earlier in the year.

The loose wording in the latest document – referring to the Group's "interest in maintaining stable exchange rates" contrasted with earlier, more explicit, commitments to resist either a fall or a "destabilising" rise in the value of the dollar.

In a stream of co-ordinated press briefings, ministers and officials insisted that the change did not imply any switch in policy towards promoting stability on the markets. Clearly concerned that the lack of clarity in the statement could prompt turbulence in the markets, some senior central bankers also said they would be ready to intervene to prevent excessive fluctuations.

It is thought that the possibility of intervention was discussed in private talks yesterday between Mr Alan Greenspan, the Fed chairman, and Mr Karl Otto Pöhl, the president of the West Germany Bundesbank. Central bankers of the Group of Ten nations also held private talks. Mr Gerhard Stoltenberg, West Germany's finance Minister, who chaired the meeting, said that the communiqué "expresses a positive assessment of the current level of exchange rates."

That view was echoed by Mr Nigel Lawson, Britain's Chancellor of the Exchequer, who said it marked a strong reaffirmation of last year's Louvre accord. As Mr Nicholas Brady, the newly-appointed US Treasury Secretary, maintained a low profile at the meeting, a US Treasury official also emphasised Washington's interest in maintaining the status quo on currency markets.

The Administration is thought to hope that the dollar will stay close to its recent trading range of between about DM1.84 and DM1.89 rather than move sharply in either direction. Other officials suggested that the Gronp had now accepted the dollar's sharp appreciation since the beginning of this year as part of the status quo.

One official said there had been no formal shift in the Group's loose exchange rate ranges but "we have accepted a higher dollar because nothing can be done before the election." He added that the US currency's appreciation against the D-Mark could not be justified by trade positions or by inflation differentials.

The communiqué included no new policy commitments and only an oblique reference to concern among its partners that the US should move quickly to reduce its budget deficit after the election. Mr Lawson was more explicit, calling on the new Administration to take "early and decisive action to reduce its budget deficit still further."

The expectation is that the Group will meet again once a new President is installed to review the level of exchange rates and the possibility of further shifts in policies.

The prevailing mood of calm promoted by the Group was punctured, however, by the publication of the IMF's latest World Economic Outlook. It appeared considerably more concerned that a resurgence of inflation could threaten the world recovery and gave a warning that the US trade deficit and the Japanese and West German surpluses would remain unsustainably large over the medium term.

● More than 20,000 people marched through West Berlin yesterday in a peaceful protest against IMF and World Bank policies which they said were perpetuating Third World poverty and devastating the environment.

US Treasury Secretary Nicholas Brady (right) listens to US central bank president Alan Greenspan before the G10 meeting

French alter line on Bonn surplus

By David Marsh in Berlin

THE PARIS and Bonn governments have agreed to study a French-inspired proposal to channel West Germany's massive current account surplus into productive investment in other European Community countries.

On Other Pages
—Details of IMF and World Bank meetings, Page 6; Editorial comment, Page 28; Empty economic boxes in the IMF outlook, Page 29; Argentina and World Bank agree new loans, Page 30.

The plan, which emerges as this week's IMF and World Bank meetings get under way in Berlin, reflects a shift in French policy under which Paris is tacitly abandoning its traditional demands for West Germany to achieve higher economic growth than its European trading partners. Specifically, France wants West Germany to encourage using its capital markets for floating of leans, denominated either in D-Marks or European Currency Units, by European borrowers.

These would be for specific Community development, transport and infrastructure projects. "The (economic) locomotive will be countries other than Germany," said ona French official. "But Germany can provide the coal."

Although the West Germans have given only a lukewarm response to the suggestion up to now, Mr Hans Tietmeyer, state secretary in the West German Finance Ministry, and Mr Jean-Clande Trichet, head of the French Treasury, are drawing up a report on the idea.

Mr Pierre Bérégovoy, the French Finance Minister, now appears to accept the durability of the West German trade and current account surpluses. This reflects both the competitive structure of West German exports and also the relatively low long-term growth path of the West German economy.

The West German surpluses, although falling against the US, are accelerating this year against the rest of Europe. The overall current account surplus is expected to be little changed from last year's near-record of nearly DM81hn ($43m). By seeking to encourage the Germans to set up new mechanisms to "recycle" their surplus in capital exports to the Community, Mr Bérégovoy has attracted the suspicion of West German officials who say that the destination of German capital exports should be decided by the market, not by politicians.

However, Mr Bérégovoy agrees with the West German line that the exsiting imbalances in intra-Community trade cannot be solved by realignments in the European Monetary System. Underlining the convergence of French and

Continued on Page 30

Ford unveils 'clone plants' plan for key components suppliers

By John Griffiths in London

SUPPLIERS of key components to Ford will have to set np "cloned" production plants next to the company's vehicle assembly factories throughout Europe, under a strategy devised by the US group to halve inventories and improve efficiency.

Ford, which spends $6bn a year with European suppliers, is determined to cut inventory levels by at least 50 per cent and come much closer to the "just-in-time" practices of Japanese vehicle assembly plants.

"It would be foolish to think we can get down to the half-hour stock levels of the Japanese but we are looking to get down to half a day", said Mr Alan Spencer, Ford of Europe's vice-president for supply.

He disclosed that Ford is beginning a pilot project at its Saarlouis assembly plant in West Germany to assess how schedules, operating methods and component suppliers can best be integrated into an assembly system with a half-day inventory level.

Ford's pan-European approach to vehicle assembly has already made it the most sophisticated mover of vehicle components in bulk within Europe, operating its own ships and other transport to tight and complex schedules.

However, while it has been able to get inventories down to one day at some assembly plants, it sees no prospect of improving on this without more radical measures.

Assuming the pilot project's success – regarded by Ford as a necessity rather than an option – its other assembly plants in West Germany, the UK, Belgium, Spain and Portugal would be brought within the same regimen.

However, according to Mr Spencer, this could not be achieved without key suppliers setting np satellite prodnction facilities relatively close to each assembly plant.

Ford has yet to be specific about which component suppliers might be involved, and when the company would start to exert pressure on them to comply.

Among the 2,700 European companies which snpply directly to Ford, those most likely to be affected by the strategy are what Ford designates as its "development suppliers" – companies which increasingly are actively involved with Ford in the development of new models from scratch.

Inevitably, they are among Europe's largar component concerns and might not be too dismayed st the prospect of cloning production provided, as Ford intends, there are adequate assurances of long-term supply contracts.

Paris tells banks to cut credit card rates

By Ian Davidson in Paris

FRANCE'S three lsrgest clearing banks have come under fierce pressure from tbe Government to cancel increased credit card charges they announced last week. One has already backed down.

Lsst Tuesday Banque Nationale de Paris, Société Générale and Crédit Lyonnais all announced rate increases ranging from 14 to 35 per cent, according to the type of card. Mr Pierre Bérégovoy, Finance Minister, responded angrily by announcing tbat be would refer the increases to the Competition Council, on tbe grounds that there appeared to bave been concertation between the banks.

On Friday, inspectors from the Competition Council, accompanied by police officers and armed witb judicial warrants, made unexpected raids on the credit card operations of the three banks.

Duriog tbe rsids tbey removed quantities of documentation.

Shortly after the inspectors' visit, Crédit Lyonnais annonnced thst it was witbdrawing tbe increased charges.

The banks have claimed that their previous charges had been unchanged for three years and did not cover the costs of their credit card services.

The rates were scbeduled to go up from FFr135 ($21) to FFr150 ($23) for internationally-valid cards, from FFr95 to FFr115 for nstionally-valid credit cards, and from FFr75 to FFr85 for cash witbdrawal cards.

But the announced increases caused indignation from all sides of the political spectrum, not least becanse the banks indicated that they would seek to discourage the use of credit cards for small payments.

Mr Alain Juppe, general secretary of the Gaullist Party, commented acidly that it was inconsistent of the banks to instal credit card machines for the payment of tolls on the autoroutes, and then seek to discourage the use of cards for small payments.

The severity of Mr Bérégovoy's reaction derives directly from the government's anxiety over the inflation rate, which is mucb faster for services than for goods.

The latest figures show an overall 12-month inflation rate of 2.7 per cent, bot an inflation rate for private-sector services of 5.5 per cent.

Mr Bérégovoy has publicly protested at this discrepancy,

Continued on Page 30

Battle for reform is threatened, warns Gorbachev

MR Mikhail Gorbscbev, the Soviet leader, has declared that the Kremlin risks losing its battle for reform – and pointed a finger of blame st the Soviet press, Reuter reports from Moscow.

"We are slow so far; we are losing time," Mr Gorhachev told leading Soviet editors and ideologists in a strongly defensive speech published yesterday by the Communist Party newspaper Pravda. "And this means we are losing."

Tbe 57-year-old leader, who has sppeared embattled since ending his summer boliday two weeks sgo, repeatedly stated that be felt the current difficulties faced by his three-year-old "perestroika" reform drive could be ovcrcome.

He said his recent tour of Siberia, in whicb he fsced a stream of complaints over poor living conditions, was "s wonderful trip" because people had dared to speak out. "This means that perestroika is bappening!" be declared.

But be took newspapers to task for failing to help the public understand a difficult economic and political transition, and complained that a sharpening rigbt-left press divide was aggravating his efforts to reshape society.

Mr Gorbachev also disclosed that some party officials had asked to step down because tbey could not cope witb change, and suggested this had sparked conflict within the party. But he played down the departures, saying they were natural.

"The current stage of perestroika demands different approaches, methods of work, yes, and new people must appear," Mr Gorbachev told the editors in his speech on Friday.

In his first comments on the domestic situation since his post-boliday tour of Siberia, he accused the press of muddling the issues by blaming reform for what had made reform necessary.

"In some speeches and publications, you almost get the idea tbst perestroika has aggravated the economic situation, thrown finances out of balance, worsened supplies of food and goods, shsrpened housing and other social problems," be said.

"What can be said abont this? In the first place, why sttribute to perestroika things which are linked to the preceding period?," he asked.

"Simply ststing tbat 'the sbelves are empty' or 'there are no goods' is useless."

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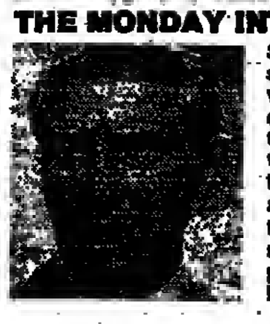
THE MONDAY INTERVIEW



Senator Lloyd Bentsen, US Democratic vice-presidential candidate, makes clear that if he wins, he would use the position to influence US trade and economic policy to boost compatitiveness and braak down protectioniem
Page 46

Ozal referendum victory hangs in the balance

By Jim Bodgener in Ankara

MR Turgut Ozal, Turkey's Prime Minister, saw his prospects of victory in the country's weekend referendum in the balance yesterday as the first returns gave a patchy picture. Mr Ozal threatened to resign a week ago if the outcome of the ballot – on whether or not to hold early local elections in November – was overwhelmingly negative.

The government appeared to be doing relatively well in the cities, where the results averaged between 30 and 40 per cent, which might give Mr Ozal a sufficient threshold to fend off opposition claims that the result constituted a vote of no confideoce. But in the countryside – and particularly in the Kurdish south-east – he appeared to be doing badly – "yes" votes reaching only about 20-30 per cent.

However, an early estimate by the semi-official Anatolian News Agency on results from 59 cities gave an affirmative vote of 34.2 per cent.

Mr Ozal took the referendum course when he failed to obtain sufficient votes in a parliamentary debate last month on whether or not to hold local elections in November rather than as constitutionally scheduled in March. But the opposition has built it into a test of electoral confidence in his government. His resignation threat was clearly aimed at swinging votes and rallying dissident elements in his party.

Yesterday evening, Mr Ozal still had not yet revealed what threshold of votes was necessary to retain him. The threat sought to boost "yes" votes to at least the 36 per cent his Motherland Party won in the general elections last November. The party has been losing popularity and the government's authority has not been helped by inflation running at annual rate of 78.4 per cent.

In broadcasts at the weekend, Mr Ozal held over the electorate's head the threat of a return to the political, social and economic upheavals of the late 1970s.

There is speculation among diplomatic sources that Mr Ozal is tiring and may have planned to resign next year anyway – or go on to the presidency when President Kenan Evren finishes his term in November next year.

SHIPPING REPORT

Tanker market rates hit

By Kevin Brown, Transport Correspondent

RATES began to slide in the tanker market last week, and brokers said there was little hope of any significant change in the trend for at least a month.

Galbraith's, the London brokers, said the lack of demand was caused partly by an abundance of crude oil already on its way to the consuming countries.

In addition, a surge in inventory stockpiling is thought unlikely because of forecasts that the price of oil is likely to weaken rather than strengthen in the medium term.

Some owners are also concerned about the possible effects of a lasting peace in the Gulf War, which could lead to a large number of Iranian-chartered VLCCs flooding onto the market.

However, it is possible that the chartered tonnage will be used by the Iranians for longer trips from Kharg Island. In addition, the reopening of the sea lanes may encourage Iraq to charter tonnage, or sell more oil to charterers.

Brokers said a ship of 260,000 tons from the Gulf to the Caribbean and a 220,000 tons cargo from the Gulf to the Philippines were both fixed at Worldscale 36 towards the end of the week.

This compared with a going rate earlier in the week of around Worldscale 38 for cargoes of 225,000 to 240,000 tons for discharge in South Korea or Taiwan.

Polish leadership set to endorse PM

By Christopher Bobinski in Warsaw

THE POLISH Communist Party central committee meeting today is to be asked by General Wojciech Jaruzelski, the party leader, to approve Mr Mieczyslaw Rakowski as the country's new Prime Minister.

Mr Rakowski is a long-standing political ally of Gen Jaruzelski and his candidacy is expected to go through the central committee and Parliament largely unscathed. Last week conservative officials opposed to reformist economic policies and to talks with Mr Lech Walesa, the Solidarity leader, mounted an unsuccessful attempt to save the government of Mr Zbigniew Messner.

Mr Rakowski was presented at the weekend as a politician with a positive reputation in the West and in tune with the policies of Mr Mikhail Gorbachev, the Soviet leader.

He is expected to make a special effort to improve Poland'e relations with Western countries, especially now that Warsaw is entering a critical phase in its attempts to win easier terms on its $38bn foreign debt as well as a standby agreement with the International Monetary Fund.

One of Mr Rakowski's first official guests in Poland will be Mrs Margaret Thatcher, the British Prime Minister, due on October 16.

Mr Rakowski made a name for himself as a liberal when he edited the outspoken Politika party weekly in the 1960s and 1970s, and the newspaper's record won him the deep mistrust of the then conservative Kremlin leadership.

At home his liberal reputation crumbled when he served as deputy premier between 1981 and 1985 through the martial law period. Recently he has also been making tough policy speeches aimed against the Solidarity opposition in a bid to win the support of the party apparatus as part of his drive for promotion.

His candidacy follows the demise last week of Mr Messner's cabinet and it is to be debated at a special session of parliament, soon after which he is expected to form a new government.

Shimmering siren leads the pack

MICHAEL THOMPSON-NOEL IN SEOUL

SPORTS STORIES do not come any bigger than Ben Johnson, the mighty Canadian sprinter who on Saturday blew another gaping hole in the record book by winning the men's 100 metres at the Seoul Olympic Games.

Yesterday, for good measure, the women's 100 metres was won by an athlete – the dazzling Florence Griffith-Joyner of the US – whose impact on the growth of big-time athletics could be even more profound than Johnson's.

Because of their assaults on the record book, both Johnson and Griffith-Joyner have suffered from the whispering about the use of bulk-building steroids that is now commonplace in top-flight sport.

But the whisperers lay quiet this weekend, perhaps in acknowledgement of the dawning realisation that new training techniques and hitherto undreamt-of dedication are starting to produce a new type of athlete, and new levels of performance.

Johnson's record dash on Saturday was all the more stunning because of the way he fooled almost everyone last Friday by finishing only third in his second round heat.

In Saturday's final, however, Johnson boomed to victory and heralded a new era by lowering his own world record by four hundredths of a second to 9.79 seconds.

In the process he became the 21st Olympic 100 metres champion and therefore ruined the dreams of Carl Lewis of the US, who had hoped to repeat his Olympic performance of four years ago in winning gold medals at 100 metres, 200 metres, long jump and sprint relay.

Lewis had to be content with the 100 metres silver medal, in 9.92 seconds, ahead of Britain's Linford Christie, who won the bronze in a new European record of 9.97 seconds.

Christie's performance proved some compensation for Britain after the recently-injured Steve Cram, viewed as Britain's best hope of an athletics gold in Seoul, had sagged to defeat in the second round of the 800 metres – confirming that Britain's eight-year reign as a front-rank athletics power has almost certainly ended.

Asked if beating Lewis had been more important to him than winning the Olympic title, Johnson looked angry. "No. Next question," he said. With far more pride than accuracy, he added: "Anybody could break the world record, but the gold medal is mine."

In contrast to the taciturn Johnson, Florence Griffith-Joyner – "Fluorescent Flo" – has the style and the shimmer of a Hollywood siren, which is why yesterday's win in the Olympic women's 100 metres final is likely to bring her fame and wealth far beyond the scope of any previous female athlete.

Looking beautiful and majestic, Flo-Jo surged to the gold medal in a new Olympic record time of 10.54 seconds to complement her world record run of 10.49 seconds in the US Olympic trials two months ago.

Among the sisterhood of the track, she gleams like an exotic alien, having at various stages in her ascent set new styles in six-inch fingernails, hooded body suits (now being worn by some of the US men) and titillating one-leggers – outfits that reveal the bulging thigh muscle of a single muscular leg.

To bulk up her thighs she often suffers 1,000 sit-ups a day and endures daily sessions with weights.

"I've trained a lot harder, maybe three times harder, this year," she said recently. "In order to burst out of the blocks, you need a lot of leg strength. Before now I never had that great a start. I don't think a person has to use drugs. There is no substitute for hard work."

Thus spoke the woman of the 21st century.

Europe set to agree trade and aid stance on ACP countries

By Tim Dickson in Brussels

FOREIGN Ministers of the European Community are today set to agree the broad outlines of their strategy for next month's formal opening of key trade and aid negotiations with some 66 African, Caribbean and Pacific (ACP) countries.

The forthcoming talks, which will mark a significant shift in the EC's policies towards developing states, are aimed at finding a new agreement to replace the Lomé III Convention when it runs out at the end of February 1990. The expectation in Brussels is that a new deal will be signed in the second half of next year.

While sharp differences between the EC and the ACP will need to be resolved over the next 12 to 18 months, the Community's priority today will be to try to narrow down the remaining gaps within the 12 member states.

No attempt will be made at this stage to define the appropriate size of the new package. The current five-year programme provides for Ecu8.3bn (£5.49bn), most of it non-reimbursable with some in low interest rate loans. But clear guidelines on the future focus of aid and the scope for further trade concessions will have to be set.

The most controversial issue will be the extent to which the EC asserts the primacy of so-called structural adjustment – shifting support away from medium and long-term development projects to the more rapid disbursement of funds for short-term balance of payments and other economic adjustment measures.

Britain has led the campaign to step up support to countries carrying out such programmes, and while EC Development Ministers broadly endorsed this thrust in May some member states remain concerned that the Community will be seen to be behaving too much like the World Bank and the International Monetary Fund.

The key question – likely to be fudged at today's meeting – is to what extent increased "conditional" assistance will replace, or simply complement, established project finance.

Apart from aid, the other major plank of the Lomé Convention is the free access which it provides for ACP industrial goods and for most ACP agricultural products (Kenyan strawberries are among the exceptions). Under Lomé III the EC has also undertaken to buy 1.3m tonnes of sugar per year

The general view in Brussels is that the trade aspects of the present Convention work well – given the virtual absence of tariffs and quota restrictions – there is therefore little room for improvement. Nevertheless, there are tensions within the Community between northern member states like Britain, West Germany and the Netherlands which feel that trade measures represent the most positive means of support, and the Mediterranean countries whose farmers are affected by ACP agricultural imports.

Angola talks to reopen as fighting grows

By Michael Holman, Africa Editor

THE seventh round of talks between South Africa, Angola and Cuba, seeking independence for Namibia and the withdrawal of foreign troops from Angola, is due to open today in the Congolese capital of Brazzaville, amid growing diplomatic activity and intensified fighting in Angola itself.

Speaking over the weekend, General Magnus Malan, South Africa's Defence Minister, accused Angola and Cuba of preparing to attack the headquarters of the rebel Unita movement in south-east Angola. This would be "totally in conflict with the spirit" of the negotiations.

Last week Angola announced that its troops had captured a strategic central town from Unita, but denied that it was planning an attack on the Unita headquarters.

Mr Javier Perez de Cuellar, the UN Secretary General, has said that all sides were close to agreement on the implementation of a UN plan for independence elections in Namibia.

Widow of Allende returns to Chile

By Mary Helen Spooner in Santiago

THE 74-year-old widow of President Salvador Allende returned to the Chilean capital of Santiago on Saturday, after 15 years of exile in Mexico.

Mrs Hortensia Bussi de Allende left the country soon after the 1973 military coup in which her husband, a Socialist, died when the presidential palace was attacked.

Several hundred supporters met her at the airport, where she read a statement of thanks to human rights groups, opposition political parties, the Catholic Church and foreign governments for making her return possible.

Mrs Allende's arrival comes three weeks after President Augusto Pinochet, who led the coup 15 years ago, had announced he would allow Chile's remaining political exiles back into the country. She is an important opposition symbol but is not expected to take an active political role.

Chilean authorities are hoping the arrival from exile of left-wingers will stir negative memories of the Allende Government, with the presidential plebiscite due on October 5. Voters may only approve or reject Gen Pinochet.

Mr Volodia Teitelboim, a Communist Party leader, has arrived in Santiago after 15 years in Moscow. He said the opposition should declare a provisional government if the voters reject the general.

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OVERSEAS NEWS: THE LEBANON CRISIS

Beirut calm as two PMs compete for control

By Jim Muir in Beirut

AN UNEASY calm prevailed in Beirut at the weekend as the war-weary Lebanese sought to make sense of the unprecedented political mess created by the emergence of two rival governments last week.

The competing Moslem and Christian administrations both say they hope the crisis will end soon with the election of a new president and the formation of a unified government. Both say that what happened last week does not necessarily mean partition, and that they are committed to preserve at least the semblance of a unitary Lebanese republic.

However, the "transitional" military government in Christian east Beirut, headed by Gen Michel Aoun, the army commander, and the outgoing cabinet led by Mr Selim al-Hoss, are pulling in opposite directions. Foreign diplomats are being lobbied for recognition. Ths Lebanese bureaucracy is in confusion.

Yet, in a sense, little has changed on the ground since the Christian President Amin Gemayel stepped down on Thursday. His government had long ceased to enjoy more than notional power. His cabinet had not met for nearly three years and his personal writ extended little further than the walls of his presidential palace.

Even so, at least there was still the faint hope that Lebanon might be reconstituted. If a solution to the current mess is not found soon, many Lebanese fear that the effective partition will become a fact, making it even more difficult to imagine ths country being pnt together again.

A solution now depends on breaking the deadlock between Damascus and tha defiant Christians of east Beirut, now led by Gen Aoun's three-man "transitional" government, appointed by Mr Gemayel.

The leaders of the Moslem majority and Syria's other Lebanese allies (including some Christians) have refused to have anything to do with Gen Aoun. They have continued to support the caretaker cabinet and Mr al-Hoss, its Sunni Moslem Acting Prime Minister.

By unwritten constitution, Lebanon's president should be a Maronite Christian and the prime minister a Sunni. However, hard-line Christian leaders in east Beirut, conscious of their minority status, oppose what they call Syria's attempts to impose a president on them and to tamper with the balance of power. The estimated 25,000 troops Syria has in Lebanon control the east and north of the country, as well as west and south Beirut.

Despite the lurch towards partition, the chances of bridging the gap between Damascus and east Beirut, and so clearing the way for a successful election, are not being ruled out. Gen Aoun plans to send an envoy to Damascus to put his case, and Syria's comments have been surprisingly restrained.

Mr Samir Geagea, Christian military cmmander, believes the new situation may spur a solution. "Nothing has really changed," he said at the weekend. "They tried to use the partition scare to put pressure on us. But Lebanon has been partitioned for 15 years between areas free of foreign influence, lika east Beirut, and those occupied by the Syrians. Now things have become clearer."

On the other side of town, Mr al-Hoss, west Beirut Prime Minister, also hopes for an early solution with the election of a president and formation of a unified government.

"What has happened does not mean partition," he insisted. "We believe in the unity of Lebanon and we are going to do everything we can to preserve it. Our government is a caretaker for a limited period until the elections."

While this oddness persists, the two rival governments are locked in combat for outside recognition, and for control of government institutions at home. Each prime minister has called in foreign ambassadors to argue his case. Each has ordered Lebanese ministry officials to obey only his instructions, warning that they will be held to account if they heed the rival administration.

The central bank and the Finance Ministry have to fund governmant purchases and expenses. The bank is in west Beirut and believed to hold about 70 per cent of the country's 9.3m ounces of gold reserves.

Syria struggles to preserve its influence

Tony Walker weighs the ambitions and resources of Damascus under stern test

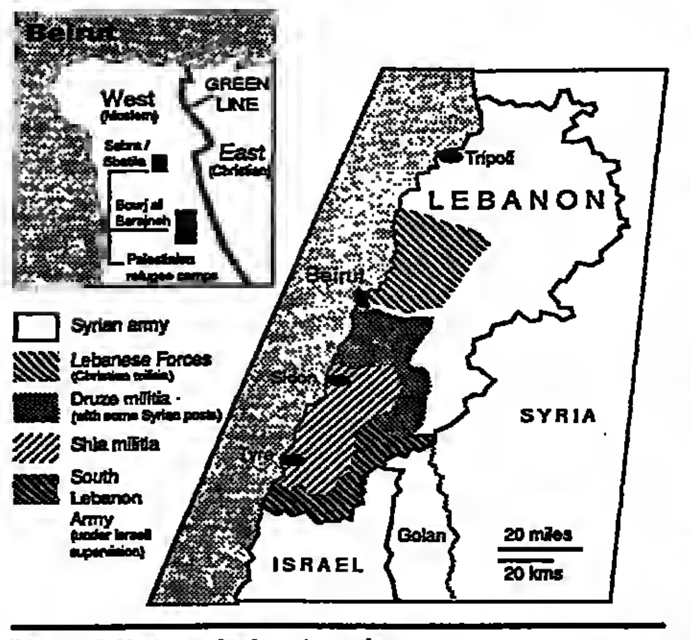
THESE ARE not the best of times for President Hafez al Assad of Syria. The turmoil in Lebanon is as much a challenge to Syrian ambitions there as a reflection of internal pressures for partition.

Seen from the relative tranquility of Damascus, events in Lebanon have a jarring quality that is certain to be causing anxiety to the Syrian regime, already hard-pressed on a number of fronts. Syria is again in a situation it cannot be sure of controlling and Mr Assad's much-vaunted ability to make the best of unfavourable circumstances is about to face its sternest test.

In Damascus the diplomatic talk is about bow the Syrian president might respond to the Christian challenge. When a big car bomb ripped Christian east Beirut last week, soon after the rejection of a Syrian-sponsored candidate as successor to President Amin Gemayel, it was seen, rightly or wrongly, as a message from Damascus.

The main question, though, is bow far the cautious Mr Assad is prepared to go to confront those in the Christian heartland who would continue to defy Syrian authority. Military intervention is considered unlikely, for the time being.

However, Mr Assad must be aware of the dangers of erosion of his reputation as a man who gets his own way. The Arab League summit last November in Amman revealed limits to Syria's veto power in regional councils by issuing a strongly worded condemnation of Iran and letting Arab states resume full diplomatic relations with



Egypt. Gulf states leaders in particular have sought since to present the Amman summit as something of a breakthrough in efforts to counter the veto powers of the rejectionists.

Against this background, Mr Assad's many difficulties can be summarised as follows, when even some of his close allies in Lebanon are questioning Syria's ability to take charge:-

● Hard-line Christian opposition to Syrian involvement in Lehanese affairs has been emboldened recently by tangible indications of Iraqi support. Baghdad, freed from the immediate pressure of the Gulf war, is reported to be providing money and guns, including equipment seized from Iran. Israel has long supported the Lebanese Forces militia (the private Christian army) as a means to retain influence in Lebanon. This is creating an odd triangle of Tel Aviv, Baghdad and the Christian heartland.

● Iran's decision to sue for peace – from a position of relative weakness and without first consulting Damascus – was a hlow to Mr Assad. Syria's Iranian connection has been devalued as a trump card in its dealings with the rest of the Arab world.

● Syria's ability to control the destiny of the Palestinian movement is being challenged. Recent events – such as the emergeoce of Palestinian leaders in the West Bank and Gaza, King Hussein's decision to relinquish formally to the Palestine Liberation Organisation claims to the occupied territories, and PLO attempts to fashion a new political strategy – are carrying the movemeot away from Syria's orbit.

● There are worrying signs for Damascus that the Soviet Union, its main arms supplier, is growing restless over Syria's inflexibility on the terms for a possible resumption of Middle East peace efforts. Recent contacts between Soviet and Israeli officials, and a warming in relations between Israel and Soviet bloc states, have been noted in Damascus.

● Syria is still suffering an economic crisis, only partly relieved by the country this year becoming self-sufficient in oil. The heavy cost of maintaining its troops in Lebanon can only increase if there is more trouble. If troubles intensify, the cost will be higher.

● Syria continues to face a challenge in west Beirut from the radical pro-Iranian Sbia Moslem Hezbollah (Party of God). The assassination last week, possibly by Hezbollah fighters, of three leaders of Amal, Syria's Shia proxy, is another bad omen for Syria's ambitions to control Lebanon.

For all Syria's problems, few would predict emphatically that Mr Assad will not confound the doomsayers again. Syria's leader has a knack of turning events in his favour and putting the Western powers in his debt. The release, for example, of US hostages held in Lebanon, if their road to freedom lay through Damascus, would again raise Mr Assad's stock. However, Syria's perennial problem, as a Western official put it, lies in its "attempting to play a role much larger than the country's worth." Chaos io Lebanon threatens to stretcb Syria's limited resources thinly.

Still stubborn as power wanes

Tony Walker and **Andrew Gowers** assess the Christian leaders

"VIOLENCE," declared Mr Karim Pakradouni, the chief Christian ideologue, in 1975, "is good for us and good for the Left. It polarises public opinion."

That was near the start of Lebanon's civil war. Thirteen years later, the civil strife is far from over and Mr Pakradouni, a brilliant 44-year-old Armenian lawyer, remains at the centre of Christian politics as number two in the Lebanese Forces militia.

Geagea: Higher duty

Along with the militia commander, Mr Samir Geagea, he has been at the forefront of the Christian minority's opposition to what it regards as Syrian efforts to impose a pliable president on Lebanon, and opposition to any change in the existing balance of power in favour of the Moslem majority.

Demography and economic power in Lebanon have long been tilting against the Christians. When the country's confessional system of government was set up under an unwritten National Pact in 1943, they were in a majority and so could lay claim to the presidency. The prime minister was to be a Sunni Moslem and the parliamentary speaker a Shia. Today, the Christian community probably represents only a little more than 40 per cent of Lebanon's 3.6m population.

As the Moslems have stepped up their search for amendments to Lebanon's power-sharing arrangements in order to reflect this change, so the Christians have dug in their heels, threatening to secede and to make the creeping partition of the country over the last 13 years of civil war a formal reality.

The Lebanese Forces, backed by Israel and now bolstered by additional support from Iraq, may not be calling openly for partition. Even so, they have made clear that, if they cannot retain their long-standing pre-eminence in the republic's political structure, they are prepared to retreat into that small part of it which is under their undisputed control.

Yet the Christian community is far from monolithic. It contains a range of personalities with very differing personal, religious and political goals. The principal players in the coming days will include:

● Mr Samir Geagea, 35, a physician and the sternly anti-Syrian commander of the mainly Maronite Christian Lebanese Forces militia, which is the dominant institution in east Beirut. He told the Financial Times last year, in a rare interview, that he had abandoned a career healing the sick and wounded for life as a militia commander because of a higher sense of duty to the Christian resistance. Mr Geagea, who became Lebanese Forces commander in January 1986, has been involved in violent rivalry with other Christian clans and the subject of assassination attempts.

● General Michel Aoun, 53, is commander of the Lebanon's 35,000-strong regular army, and head of the transitional government declared last Thursday by outgoing President Amin Gemayel. He has declared his principal tasks to be arranging an early presidential election and ensuring security in the meantime. Gen Aoun, who has neither a warrior's reputation nor appearance, was considered for many months a frontrunner to succeed Mr Gemayel. He was favoured by the US, but Syria had reservations. The US army has helped to train the Lebanese army, and has supplied it with weapons. Although Christian-led, the army has been split for some years along confessional lines and so will be both reluctant and unable to intervene decisively.

● Mr Amin Gemayel, 45, clearly wishes to continue to play a role as a leader of the Christian Phalange party, founded by his late father, Pierre, in the 1930s. Mr Gemayel made little impact in his six years as president but, as an heir to a political dynasty, he remains a factor in the Lebanese equation.

● Mr Mikhail Daher, the "Syrian candidate" for the presidency is a lawyer and little-known political figure. A parliamentarian from northern Lebanon, the grey-haired Mr Daher has a reputation as a conciliator. Syria and the US each says his candidacy was the other's idea.

● Mr Raymond Edde, a veteran politician, is a declared candidate for the presidency but he has said he would not stay in the job unless the Israelis were to withdraw totally from southern Lebanon. Mr Edde was "endorsed" last week by the Lebanese Forces. This is unlikely to have helped his chances with the Syrians. He has been in exile in Paris since 1976, having fled after three assassination attempts.

● Mr Suleiman Franjieh, 78, was president in 1970-1976. His term encompassed the start of the civil war. Mr Franjieh, a close friend of President Hafez al-Assad of Syria, was initially supported as a successor to Mr Gemayel by the Syrians. When Mr Richard Murphy, the US negotiator, suggested in discussions with Damascus that Mr Franjieh was too old for the job, it was pointed out that he was the same age as President Ronald Reagan.

OVERSEAS NEWS

Reconciling commerce and public interest

Guy de Jonquières examines an OECD report on policies for science and technology

SINCE the start of the 1980s almost all developed countries have responded to intensifying world-wide competition, particularly in high-technology industries, by gearing scientific research and education much more closely to the needs of business.

The trend has led to a sharp increase in the amount of research by industry, particularly in the US and Japan. It has also encouraged the development of tighter co-operative links between industry and universities, within countries and internationally.

However, there have also been perverse results. Some government policies are proving misconceived or even self-defeating, and the global stampede to turn science and technology to commercial advantage may have damaging longer-term consequences.

These are among the main findings of the Organisation for Economic Co-operation and Development's latest annual Science and Technology Policy Outlook. It is particularly concerned that, as industrial sponsorship of academic research grows, commercial pressures to keep the results confidential will increase.

That could threaten a long tradition, whereby much important basic research has been government-funded and made publicly available. The OECD believes new measures are needed – possibly a revision of intellectual property rights – to reconcile the commercial and public interest.

The policies of governments – including, by implication, those of the UK – also come in for criticism. The report dismisses the notion current in some countries that growing industrial support for academic research will enable governments to reduce their funding for universities, at least in the near future.

Some government policies are proving misconceived or even self-defeating

The OECD says many governments' research policies are also failing to keep up with the times. Aiming for national technological and scientific leadership is no longer realistic, because no country can achieve self-sufficiency, and runs counter to increased international co-operation by industry and universities.

Much of the report is devoted to a penetrating analysis of another area of policy weakness. The OECD argues that efforts by many governments to promote national technological competitiveness have failed to achieve their results because too much emphasis has been placed on stimulating innovations and not enough on speeding the diffusion and adoption of technology throughout the economy.

The report says that, while both processes are important, countries and companies often stand to gain bigger economic rewards by applying technologies effectively than from being the first to develop them.

"The economic benefits from the development of a new technology do not necessarily flow to those technological leaders who are first to commercialise it. It is often the rapid imitator or adopter who captures most of the profit stream," the report says.

Indeed, it argues that undue emphasis on promoting innovation can even retard the diffusion, because the knowledge that new technologies are being developed may discourage some companies from applying existing ones.

Countries have not focussed on technology diffusion because they lacked appropriate institutional mechanisms, because of an unfounded fear of interfering in the market process and because of an imperfect understanding of the innovation process. But failure to address the question could lead to loss of competitiveness and market share.

The report says that even when governments have attempted to promote diffusion, their efforts have often been misguided. Too often, they have assumed that it simply involved helping companies to buy new machines and have under-estimated the importance of transferring know-how.

Companies can only adopt technology effectively if they possess the skills needed to search out and evaluate what they need. These skills are similar to those required for research and development and can only be generated inside the companies.

Undue emphasis on promoting innovation can retard diffusion of technology in the economy

"The idea that there is a general pool of technical knowledge, into which firms can dip more or less freely and thus avoid the need to undertake R&D or at least technical assessment and learning, is false. Purchasing new technology and undertaking some kind of R&D are complements, not substitutes," the report says.

Getting the right blend of technology development and diffusion is a complex policy task, and the exact mix varies according to country. It involves a wide range of factors, of which investment in education and training and economic policies which promote competition and favour long-term capital investment are the most important.

In many OECD countries, the stress on development has been accentuated by a bias in favour of assisting a few big comanies and by heavy defence spending. In these cases, diffusion mechanisms have often been weak and the technology generated has been of limited commercial relevance.

West Germany, Switzerland and Sweden have placed the most emphasis on diffusion. However, the report suggests that Japan – and, in western Europe, Denmark – have been most effective in achieving policies which balance innovation and diffusion.

It identifies five reasons for Japan's success: It closely integrates development and diffusion; it has a decentralised economy with a small defence sector, which delivers technology to the market through numerous channels; it invests heavily in edncation and "learning by doing"; it assists both large and small companies through a wide variety of macro-economic and sector specific measures; there is a heavy emphasis on improving the flexibility and technological competence of industry, particularly small companies, instead of focussing just on the adoption of more physical technology.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1980=100)

	Aug.'88	July '88	June '88	Aug.'87	% change over previous year
W. Germany	122.6	122.5	122.8	121.2	+1.2
France	172.7	172.1	171.6	168.0	+2.8
Italy	222.2	220.9	220.2	211.6	+5.0
Netherlands	123.5	123.2	123.3	122.4	+0.9
Belgium	148.8	146.8	146.1	145.6	+0.9
UK	161.4	159.6	159.5	152.7	+5.7
USA	144.8	143.8	143.2	138.8	+4.1
Japan	115.9	118.0	115.9	115.2	+0.8

Source: (except US) Eurostat

Holiday price variations slammed

By William Dawkins in Brussels

RECENTLY retnrned European holidaymakers can be guaranteed to blanch under their fading tans at a report detailing startling differences in prices for the same European holidays.

The study by the European Bureau of Consumer Organisations (Beuc), shows that some EC tourists spent nearly 80 per cent more than others on the same holiday, depending on which country they came from. It has asked the European Commission to investigate why prices vary so widely, "particularly in the light of recent mergers and talks of mergers in the travel industry."

The widest price variance uncovered by Beuc investigators' examination of more than 100 European holidays existed in a hotel in the Spanish resort of Benidorm. Horizon, the UK tour operator, charged English guests Ecu453 (£230) to stay a week there earlier this month. Meanwhile, their fellow Europeans in the next room were paying Ecu800 for the week by courtesy of Touropa, the French travel company. Beuc maintains that differences in consumer protection do not explain the disparity.

It found two-thirds of the sample showed price differences of 40 per cent or more. British operators tended to offer the cheapest deals, followed by the Dutch, while French and German tour operators were the most costly.

Price differences between travel operators from the same country are less startling.

Japanese car imports pose dilemma for EC

Guy de Jonquières on Europe's search for a policy

FEARS are increasingly expressed, particularly in the US and Japan, that the European Community's plan to create a single market for 1992 will produce a "Fortress Europe" ringed by trade barriers and oblivious to the economic interests of the rest of the world.

Yet to judge from the EC's recent efforts to devise new external trade arrangements for motor vehicles, such anxieties may prove exaggerated. Not because protectionist sentiment is abating in the Community, but because its members seem hard pressed to agree on how to organise a coherent policy of trade protection.

What makes motor vehicles a particularly interesting case is that it is one of the rare sectors where the EC must decide how to treat imports from third countries, above all Japan, before it can realise its vision of a unified internal market.

The dilemma arises because exports of Japanese cars and commercial vehicles to five EC countries – Britain, France, Italy, Portugal and Spain – are currently limited by varying types of restraint at the national level.

The curbs cover not only direct Japanese exports to each of the five countries but also indirect exports routed through other EC member states. However, if the single market programme goes to plan, they will be unworkable after 1992 because removal of frontier controls inside the Community will make them impossible to enforce.

For the EC simply to allow the Japanese a free run of its single market is regarded as politically out of the question, at least in the foreseeable future, so the search is on for an alternative.

The European Commission is not expected to make firm policy proposals until later this year. But the broad direction of its thinking has already been outlined informally to European motor manufacturers.

Beginning at the end of 1992, it wants to replace the patchwork of national restraints with a still unspecified Community-wide ceiling on Japanese car exports, to be arranged with the Japanese Government. To conform with international trade law, it would have to be a transitional measure, which would run for only a limited number of years.

To get Japan to agree, the Commission suggests the ceiling should be lifted in stages.

Thus, Japanese vehicles could be distributed freely inside the Community from the end of 1992. The Commission believes that in practice Japanese manufacturers' freedom to shift sales between national markets would be restricted by their sparse distribution networks in countries such as France and Italy.

European car manufacturers, however, say the proposals do not go far enough. Their industry association, the Committee of Common Market Automobile Constructors (CCMC) wants the ceiling to be tightened by basing it on figures for 1985-86 when Japanese car and light commercial vehicle exports to the EC totalled 1.05m, instead of on last year's total of 1.1m, as proposed by the Commission. With a wary eye to future Japanese investment in European plants, they also want Japanese cars with less than 80 per cent EC content by value to count against the total covered by the ceiling.

In addition, they are seeking to use the proposals to prise open the Japanese market. They rule out lifting existing national curbs on Japanese exports until European car sales in Japan equal half the "penetration" achieved by the Japanese in the EC.

Disagreements persist about whether "penetration" should be defined in terms of market share or of exports, or by volume or value. Though EC motor manufacturers' exports to Japan have been increasing sharply, they still had only 2

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per cent of the Japanese market last year, against Japanese companies' 9.9 per cent of the total EC market. In some open EC national markets, such as Belgium and the Netherlands, the Japanese share exceeds 20 per cent.

The European industry's apparently united front, however, masks a wide spectrum of views. Industry executives say Mr Jacques Calvet, head of France's Peugeot-Citroën group, has been aggressive in championing a tough line against Japan, while West German companies have been the most reticent. Yet the latter, who saw the Japanese share of their home market surge to 15 per cent last year, do not seem to be pressing their resistance very hard.

Even liberally-inclined BMW, which has been particularly successful in selling in Japan, concedes it would need to show solidarity with more protectionist-minded European companies if they were seriously endangered by the Japanese.

EC governments have yet to be consulted formally by the Commission. However, Paris seems likely to condemn the proposals as too liberal and Bonn as too protectionist, while Rome is expected to argue that the EC must hammer out a firm agreement with Japan before abandonment of national import curbs is even considered.

Commission officials also accuse West German politicians and officials of opposing EC import curbs in public, yet supporting them in private. The fear in Brussels is that all these differences will weaken the EC's negotiating position in the face of a Japanese Government which has so far taken a studiously non-committal stance.

Further complicating the debate are rapid developments in the world motor industry. Japanese companies are deepening their EC presence both through alliances with local producers, such as Honda's links with Rover and Toyota's planned joint venture with Volkswagen in vans.

So far, Nissan's car factory in Washington, northern England, is the only Japanese car assembly plant in the EC. But other companies, including Toyota, Mitsubishi and Subaru, are all studying similar plans.

The CCMC is trying to blunt the threat of such plants by demanding that cars made in them be sold freely inside the Community only if they have at least 80 per cent EC content.

But while many Japanese companies may feel it politically advisable to strive for maximum local content, the EC would have difficulty making minimum levels legally binding. At present, Community rules state only that to qualify as an EC product, "the last substantial manufacturing operation" must be performed in the EC.

The matter may be put to a legal test when Nissan begins exporting cars from Britain to the rest of the EC at the end of this month. France, the European country most exercised about Japanese competition in cars, has threatened to resist such exports.

Commission officials say France, which has long unilaterally limited Japan's share of its car market to 3 per cent, could not be prevented from protecting its market in future by negotiating voluntary bilateral restraint agreements with Japanese manufacturers.

However, the practical value of any such agreements could be small, since they would cover only direct exports to France. Under the single market plan, Paris could legally do nothing after 1992 to stop middlemen trans-shipping Japanese cars into its home market from other parts of the EC.

Also looming on the horizon is the possibility that Japanese manufacturers may start shipping cars to the EC from the so-called trans-plant factories which many of them have recently built in the US. Honda is already exporting from the US to Japan and Toyota to Taiwan.

Commission officials argue that fear of repercussions in Europe will ensure that Japanese manufacturers keep such exports at a low level. However, any intervention by Brussels to ensure that the Japanese observed such restraint would be bound to invite a bruising trade row with Washington, in which the EC would find itself on weak political and legal ground.

As one of those closely involved with the EC negotiations put it: "At the current rate, it will take the Community years to decide how to deal with the Japanese car question. And by the time an agreement is reached, it will probably have been overtaken by events."

Fund gives warning on inflation risks

By Philip Stephens, Economics Correspondent, in West Berlin

THE International Monetary Fund yesterday warned governments of leading industrial countries not to allow a resurgence of inflation to wreck the sustained recovery in output seen over the last six years.

In its latest World Economic Outlook, it also questioned whether the huge US trade deficit and the parallel surpluses in Japan and West Germany would be brought down to sustainable levels on the basis of present policies and exchange rates.

The outlook welcomes the general tightening of monetary policy in the major economies seen during the summer.

It adds, however, that central banks should stand ready to raise their interest rates further if inflationary pressures show signs of intensifying.

It says that the risks on inflation stem from two possibilities: the first is that demand in the industrialised world may turn out to be even stronger than is now realised: the second is that capacity constraints in most economies may be tighter than they appear.

The IMF singles out the US, Britain and Italy as countries which should be particularly vigilant in curbing inflationary pressures.

"The recent surge of export demand has brought the US economy very close to the point at which an acceleration of inflation is a significant danger," it says.

The Fund's central forecasts, however, assume that inflation will rise only moderately in 1989, with the average rate in industrial countries rising from 2.9 per cent this year to 3.3 per cent in 1989.

It has sharply revised up its forecasts of growth in the world economy, with industrial economies expected to expand by 3.9 per cent this year and by 2.8 per cent in 1989.

The outlook shows concern, however, about the prospective progress over the next two years in reducing international trade imbalances.

On present trends, the US current account deficit is projected to fall from \$154bn in 1987 to \$129bn this year but to remain at that level in 1989. The Japanese and West German surpluses are put at \$78bn and \$45bn respectively in 1988 and at \$81bn and \$41bn in 1989.

Against that background, it gives a veiled warning that the recent rise in the value of the dollar could further hamper the adjustment process.

The outlook says that its medium-term projections indicate that the trade imbalances look likely to remain at levels which may not be indefinitely sustainable.

In particular, the US current account deficit is projected to stabilise at just under 3 per cent of Gross Domestic Product.

In that context, the Fund calls for much greater progress than seems in prospect at present in reducing the US budget deficit.

Its own assessment points to a budget shortfall of more than \$123bn in 1992, despite the Gramm-Rudman-Hollings Act, which sets out to reduce the deficit by imposing, in certain circumstances, automatic spending cuts.

More substantial reductions would speed up the trade adjustment process, curb inflationary pressures and help to avoid undesirable movements in exchange rates, it says.

For Japan and West Germany, the priority must be to maintain the momentum of domestic demand in their economies. In the case of West Germany, in particular, urgent action is needed to remove the structural rigidities impeding faster growth.

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Hopes of relief for sub-Sahara

By Stephen Fidler

THE dropping of West German objections has cleared the way for a plan to relieve the debt burden of the poorest countries in sub-Saharan Africa.

The resolution of the differences with the Germans came late in a meeting on Saturday of G-7 finance ministers, who welcomed "with great satisfaction" the plan's implementation.

The potential beneficiaries are 34 low-income countries with \$62bn of foreign debt, \$43bn of which is owed to official creditors.

The potential benefit to these countries is \$500m a year, although because the debt relief will only apply to those countries willing to undertake an International Monetary Fund programme the actual benefits are expected to be significantly lower.

The plan, which affects loans made by official export credit agencies, was approved in broad outline by the Toronto summit in June after the US had dropped its in-principle objections.

It gives lender countries three options to offer debt relief to the poorest countries which, it is acknowledged, simply cannot pay their debts:

- A partial write-off of one-third of the debts, first suggested by the French. Loans would carry a 14-year repayment period with eight years' grace before repayments.
- The reduction of interest rates to the higher of half of that being charged or 3½ per cent. Repayment terms would be the same as on the first option. This, originally a British suggestion, appears to be the favourite of most countries including West Germany.
- The lengthening of repayment periods to 25 years, the only option which the US has said it is allowed by its budget constraints.

Officials have acknowledged that the principle of burden-sharing – the equal apportioning of responsibilities which has guided the Paris Club of Western creditor nations responsible for the plan's implementation – has been breached by this agreement.

However, this principle is behind the decisions to reduce the maximum repayment period on the first two options to 14 years from 20.

The credit for the original idea plan is claimed by various parties, including Mr Nigel Lawson, the British Chancellor of the Exchequer, and the French President, Mr François Mitterrand.

Mr Lawson yesterday welcomed the scheme's implementation, but described its gestation as "very long haul."

He reiterated the British position that the situation of the middle-income debtors was different from that of the poorest debtors, because they could both pay their way and the fact that most of their debt was owed to the private sector.

This made debt relief inappropriate for the richer debtors. The G7 at the weekend reiterated its opposition to transferring risks from the private to the public sector.

Lawson rejects hints on UK tax rate increases

By Philip Stephens

MR NIGEL Lawson, the British Chancellor of the Exchequer, yesterday vehemently rejected suggestions from the International Monetary Fund that he should consider raising taxes next year if the pace of demand in the UK economy does not slow.

The Fund's latest World Economic Outlook, published during its annual meeting in Berlin, said that Britain would face the risk of rising inflation and a further weakening in the trade balance if the growth rate of demand did not decelerate.

In those circumstances, the British Government should consider additional fiscal restraint even though it is already running a large budget surplus, the report said.

It suggested that Mr Lawson should aim for a budget surplus in 1989/90 on the same scale of that expected this year. It added: "If demand growth continues at a rapid pace additional restraint may be warranted."

Mr Lawson, however, insisted that Britain's fiscal policy would continue to be set in a medium-term framework and would not be used for short-term demand management.

He said that he would not rule out in all circumstances increases in tax rates but he added that such an eventuality would be "highly unlikely."

In a speech to the IMF's policy-making Interim Committee, Mr Lawson said that attempts at fiscal fine tuning would offset the beneficial supply-side effects of cuts in tax rates.

"We must continue to resist those siren voices who want to... use fiscal policy in a vain attempt at short-term demand management."

The Chancellor is understood to have expressed considerable irritation with the IMF anaysis during a private meeting with Mr Michel Camdessus, the Fund's Managing Director. At a press conference yesterday he criticised the "neo-Keynesian" views of the Fund's economists.

Lawson: resisting the siren voices

The projections in the outlook show Britain and Italy sharing the bottom place within the Group of Seven nations in terms of their inflation performance.

The underlying pace of price rises in Britain is put at 5.2 per cent this year and 4.7 per cent in 1989. The Fund expects the current account to show a deficit of \$19bn in both years, compared to the \$2.6bn shortfall in 1987.

Economic growth this year is expected to average 4 per cent, down only slightly from the 4.4 per cent in 1987. In 1989, however, the Fund expects the economy to slow to a rate of 2.5 per cent. Mr Lawson is thought to have already been given details of Britain's trade position in August ahead the publication of official figures on Tuesday.

Yesterday, Mr Lawson made no comment on the figures but he repeated his view that the current account would be *among the last economic indicators* to adjust to the recent sharp rise in interest rates.

New efforts urged on debt crisis

By Stephen Fidler in West Berlin

NEW momentum must be given to the strategy of dealing with the debt crisis if the co-operative approach to the problem is not to be jeopardised, the International Monetary Fund says in the World Economic Outlook.

Progress towards a sustainable solution should be accelerated, although the existing market-oriented approach which deals with the problems on a case-by-case basis remains the way forward, it says.

Flows of capital from the developing countries to private creditors, which have grown in recent years, may only be halted by 1991-92 but a significant recovery in private lending is not in prospect.

The regulatory environment is also acting as an impediment to the participation of some creditors in financings. There is no agreed mechanism to give senior status to new loans, which means that new lending has to share the same discounts as existing loans.

It says an unexpected jump in inflation in developing countries has "exacerbated the difficulties of servicing a heavy burden of external debt".

Although developing country growth should expand to 4 per cent in 1989 from 3.4 per cent in 1987, developing countries are still benefiting less than might be expected from growth in the industrialised countries. This is because of weakness in prices of oil and certain, particularly tropical, commodities,

'Chaotic ones' fail to disturb as officials remain oblivious

By Leslie Colitt in West Berlin

THE grandchildren of West Germany's economic miracle demonstrated by the tens of thousands in West Berlin yesterday against the "pauperisation" policies shown towards the Third World by the International Monetary Fund and the World Bank.

Young West Berliners and West Germans walked peacefully under red banners condemning the IMF and calling for support of Third World revolutionary movements. IMF officials meeting in the nearby international congress centre appeared oblivious to the protesters and in any case were separated from them by a "no go" zone guarded by West Berlin policemen and reinforcements from West Germany.

Organisers of the demonstration claimed more than 80,000 participants while the police estimate was 25,000. Several hundred young people known as the "chaotic ones" detached themselves and raced through side streets smashing windows and pounding on cars. Massed riot police prevented them from entering West Berlin's main boulevard, Kurfürstendamm.

A planned anti-IMF demonstration in East Berlin yesterday was banned by the authorities and instead East German environmental and peace groups gathered in a church to criticise IMF policies. The banning undoubtedly was related to the fact that many bankers who were unable to find rooms in West Berlin hotels were booked into East Berlin's three luxury hotels. They were picked up at West Berlin's Tegel Airport by large Volvo and Mercedes cars with East German licence plates and speeded through the Berlin Wall.

Just before the arrival of the first bankers, Mr Erich Honecker, the East German leader, reviewed units of his "working class combat groups" on their 35th anniversary. The Western allies in West Berlin routinely protested against the East Berlin parade which they said *violated the demilitarised status* of Berlin.

An international "counter-congress" to the IMF-World Bank meeting ended at West Berlin's technical university with a resolution by 150 groups including the West German greens and church organisations, calling for an immediate and global cancellation of debts of Third World nations.

While taking pains to note that the IMF and World Bank were not the "only instruments" of the dominating world economic order, the congress said the debt cancellation was essential for a solution of the social and economic problems of these countries.

Jamaica seeks $500m aid

By David Marsh

JAMAICA IS looking for around \$500m from foreign aid donors to help support relief efforts after the devastation of Hurricane Gilbert, according to Mr Edward Seaga, the Jamaican Prime Minister.

Speaking in Berlin yesterday, after meetings with IMF and World Bank officials, as well as with individual aid countries, Mr Seaga said that pledges so far received totalled \$271m. Most of this reflected redeployment of exising programmes.

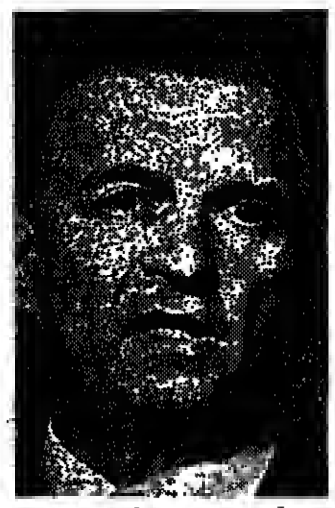
Mr Seaga flew to Berlin for talks on additional aid, but said his meetings had not yet resulted in any concrete promises of fresh money.

He said Jamaica was seeking foreign relief to help make up en anticipated foreign exchange shortfall, resulting from a temporary halt to tourist income and lower agricultural and manufacturing exports, as well as the need to import raw materials and food.

The IMF has already pledged \$47m in emergency assistance. The Prime Minister said that he reviewed the medium-term financial programmes set by the World Bank and the IMF for the next three years. This could involve changing some of Jamaica's economic targets, but the substance of the medium-term adjustment packages would be unchanged.

Early reports after the hurricane struck put damage at several billion dollars. Mr Seaga has said the damage was less than first thought, partly because the centre of the island was less badly hit than Kingston, the capital.

The impact centred on housing, where roughly half of buildings have been damaged, as well as agriculture, tourism, and industry. Tourism would be operating again in October. The manufacturing sector had resumed exporting but was hampered by lack of electricity.



Seaga: hurricane damage less than originally believed

'Policy co-ordination is achieving objectives'

THE Finance ministers and central bank governors of the Group of Seven released the following text at the end of their meeting on Saturday:

The finance ministers and central bank governors of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States met on September 24 in West Berlin for an exchange of views on the problems of the world economy. The managing director of the International Monetary Fund participated in their surveillance discussion.

The Toronto summit confirmed that a commitment to intensify policy co-ordination is required to sustain non-inflationary growth. Building on that commitment the ministers and governors reviewed the recent performance and current prospects for their economies based on performance indicators and the medium-term objectives and projections developed in the economic policy co-ordination process.

The ministers and governors noted with satisfaction that the policies and commitments undertaken in the course of their co-operative efforts are producing the desired results.

Growth is continuing at a faster pace than expected earlier in the year. Employment *has increased. There has* also been e strong increase in investment. Inflation pressures are being contained.

Current trends and prospects in those countries with the largest imbalances are consistent with and supportive of balance of payment adjustment requirements.

All this has contributed to exchange rate stability which in turn has supported these positive trends.

Ministers and governors emphasised their continned interest in stable exchange rates among their currencies. Therefore, they reaffirmed their commitments to pursue policies that will maintain exchange rate stability and to continue to co-operate closely on foreign exchange markets.

They are continuing their study of ways of further improving the functioning of the international monetary system and the co-ordination process.

The experience gained has reinforced the view of ministers and governors that the process of policy co-ordination among the major industrial countries is achieving the common objectives of reducing imbalances and sustaining widely-shared non-inflationary growth.

In line with the commitments undertaken at previous meetings, fiscal, monetary and structural policies will continue to aim et promoting more balanced growth in the deficit countries and the expansion of domestic demand in the snrplus countries. Where external and budget deficits are still large the strengthening of the fiscal position will be essential. Where external snrpluses remain large, strong domestic demand growth is required.

The recent measures taken by monetary authorities demonstrate the will to contain price pressures. As a result, there is little evidence of a general inflationary threat. Nonetheless, continued vigilance is required.

Structural reforms are an essential complement to the macroeconomic policies necessary for sustained growth with low inflation and effective balance of payments adjustment and they are being given high priority in all their countries.

Ministers and governors welcomed efforts among countries to liberalise their capital markets

The implications of the globalisation of financial markets for the conduct of economic policy are of special concern to finance ministers and central bank governors.

While mnch has heen achieved in the liberalisation of financial markets, ministers and governors believe that co-operative mutually supporting efforts to remove remaining barriers to international financial flows are necessary to improve the efficient allocation of capital. They welcomed the efforts under way among their countries to liberalise and improve the functioning of their capital markets. They will give contiuning attention to ensuring an appropriate prudential framework and harmonising prudential regimes.

The ministers and governors re-emphasised the critical importance of free trade for world economic progress. They recognized the important contribution free trade can make to sustain growth, reduce imbalances and resolve the debt problem of developing countries. Their countries will resist protectionist pressures. They attach primary importance to securing with all participants substantial progress in the mid-term review of the Uruguay Round.

The ministers and governors stressed the importance of other economies, particularly the newly industrialised ones, contributing to the international balance of payments process. While noting their continuing outstanding economic progress, they urged them to open their markets further to foreign goods and investment and to allow their currencies to reflect the underlying strength of their economies.

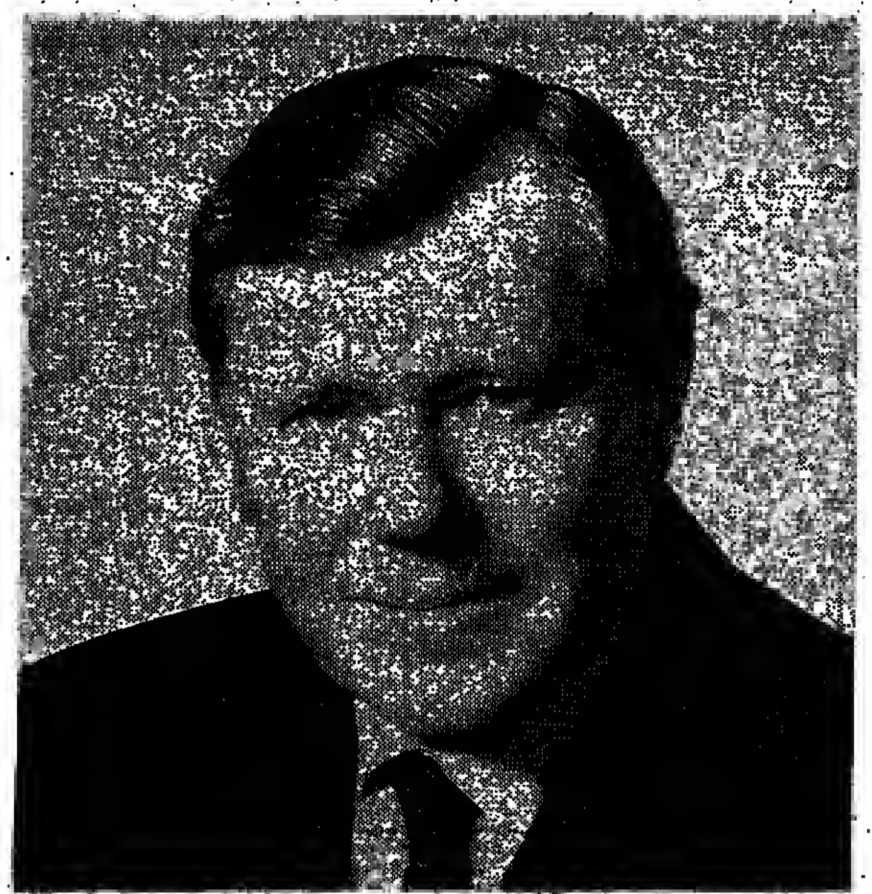
The ministers and governors reiterated their strong support for the growth-oriented case-by-case debt strategy under which substantial progress has been made. Robust growth in the industrial countries and the strong expansion of world trade are supporting the efforts of the many developing countries who are undertaking efforts to exploit their economic potential more effectively.

Significant initiatives have been taken by official donors and creditors, including the IMF and the World Bank, to increase resource flows into the developing countries willing to adjust. It is critical that these resources be used efficiently in support of growth-oriented macroeconomic and structural reform. They stressed the importance of the contrihntion which governments of creditor countries are making to alleviation of the debt service burden of debtor countries through Paris Club reschedulings. In this context they welcome with great satisfaction the fact that the necessary arrangements have now been worked out by the Paris Club to implement the new Toronto approach as regards the debt of the poorest countries.

The resolution of the debt problem requires the active participation case-by-case of all parties involved, including the commercial banks. The ministers and governors encourage the further development of *market-based and voluntarily* agreed financing options under the menu approach in order to facilitate new financial flows. In this connection they reiterated their opposition to transferring risks from the private to the public sector.

The ministers and governors confirmed their support for the work of the IMF and the World Bank. They will co-operate closely within the framework of both institutions with all member countries, to cope with the problems of the world economy.

"Having employees with additional skills and a willingness to produce that extra effort is so vital these days."



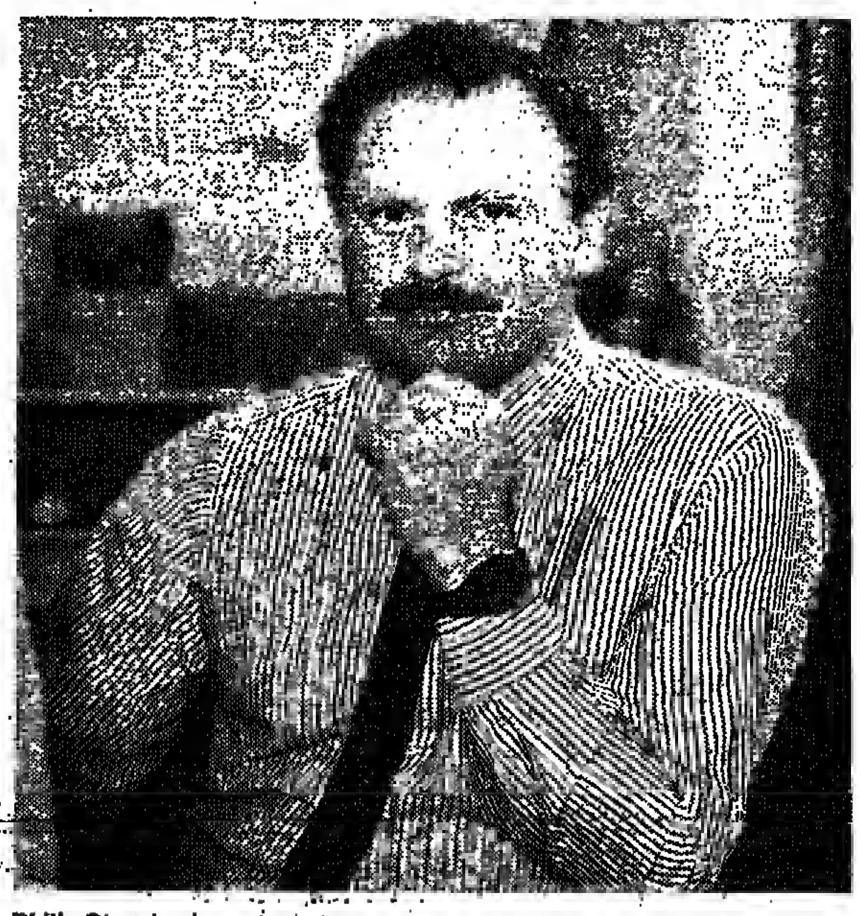
Sir Derrick Holden-Brown.
Chairman and Chief Executive, Allied-Lyons PLC

"In industry we demand high standards of performance and I believe that the Volunteer Reserve Forces achieves high standards of training. This not only benefits the employee who improves his skills, and develops his character, but also the employer.

I believe that those who devote so much of their spare time for the benefit of us all, and at Allied-Lyons we have a number, including senior officers in the Territorial Army, help us by being well trained as leaders and organisers. They are an inspiration to us all and have been well described as being 'twice a citizen'.

I commend to all employers large and small the benefits of allowing employees to serve in the Volunteer Reserve Forces."

Derrick Holden-Brown



Philip Stuart.
Programmer, Allied Distillers Ltd. A company in the Allied-Lyons Group.
Captain. Royal Electrical and Mechanical Engineers. Territorial Army.

"The TA has changed my whole attitude to life. Ten years ago I joined because the Army appealed to me. What I didn't really anticipate was the opportunity to learn such a broad range of new skills. Skills both practical and valuable that would help me develop outside the TA; the importance of team work—the pulling together of minds as well as bodies, making better use of my time and putting in that extra bit of effort.

I really feel I'm in better control and I think that's because I've learnt to understand and appreciate the people around me, what they expect from me and what I expect from them.

It is team spirit, but I suppose it's all about loyalty as well; I think that's where I've really developed, I believe I have more to offer."

P. M. Stuart.

ALLIED LYONS

Volunteer Reserve Forces – Territorial Army, Royal Naval and Royal Marines Reserve and Royal Auxiliary Air Force

The truth is, we need them.

UK NEWS

Ashdown rules out pacts to unseat Thatcher

By Michael Cassell, Political Correspondent

MR PADDY ASHDOWN, leader of the Social and Liberal Democratic Party, last night firmly ruled out any electoral pacts against Mrs Margaret Thatcher, the Prime Minister, before the next general election.

He said his party was impatient to create a new political agenda capable of replacing Labour as the main party of opposition.

Mr Ashdown, who was speaking at the end of the first day of the SLD's federal conference in Blackpool, said that he was not even prepared to address the subject of electoral deals with other parties unless and until it was made necessary by a decision of the voters.

The SLD was formed earlier this year from a merger of the Liberal Party and the greater part of the Social Democratic Party.

Mr Ashdown said the main task of the party was to stop looking back and to create a radical, centre-ground political alternative with a clear vision of the future.

His remarks represented the most forceful rejection yet of last week's claim by Dr David Owen, the Social Democratic Party leader, that the only hope of unseating the Conservatives lay in an electoral deal among the opposition parties.

Paddy Ashdown: eager to create new political agenda

He said the SLD intended to fight every constituency at the next general election, although he suggested that the party might not fight the three seats held by the SDP.

At a rally last night, Mr Ashdown claimed that party membership was approaching 100,000. It was not "pie in the sky" to believe the SLD could beat Labour's present membership total of 280,000 before the next general election, he said.

His personal position as leader was yesterday strengthened with a conference decision which reflected the party's determination to end the internal wrangling of the last year and to turn its attention towards policy making.

Representatives voted overwhelmingly not to debate 32 amendments to the new party constitution, which the leadership feared would further damage its standing with the electorate.

Mr Ashdown defended the absence this week of a debate on defence on the grounds that no constituency party had called for one.

He said, however, that his party would retain credible, nuclear defences as long as they were necessary, while also pursuing an active role in moves towards international disarmament.

He said defence policy would be debated next autumn and added: "We will take no action which would put at risk the security of this country."

The party faces a difficult debate today on the adoption of a short title, which is proving deeply emotive for members of the two old parties.

Options include the use of Democrats, but there will also be a move to adopt Liberal Democrats.

Mr Ashdown, who prefers Democrats, said he expected all MPs and party members to accept the democratic decision of conference.

Government presses for better schools and business links

By David Thomas, Education Correspondent

THE GOVERNMENT will announce this week an initiative to improve links between Britain's schools and employers, just as evidence has emerged from the Confederation of British Industry, the employers' body, that only a small number of school children at present have regular contact with local businesses.

The Government is due to announce on Wednesday a new network of advisers who will be charged with ensuring that every pupil receives work experience before leaving school, and that a tenth of teachers get business experience each year.

Three Cabinet ministers will be hosting the launch in order to underline the importance attached to it.

Separately, the CBI looks set to push for a shake-up of the numerous organisations and initiatives designed to encourage links between schools and businesses, together with renewed effort to persuade employers to take an interest in their local schools.

The CBI's views have been shaped by the largest survey ever undertaken of the contact between schools and businesses. The survey, carried out for the CBI by Booz Allen and Hamilton, was of more than 1,500 secondary schools, nearly 1,000 companies and more than 80 education authorities.

The CBI is publishing its main findings today in advance of a report due next month by a CBI task force on school-business links, headed by Sir Adrian Cadbury.

The survey pointed to an absence of regular contact in almost 40 per cent of schools and more than half of businesses. Only one pupil in five, on the most optimistic assumptions, is covered by such links.

Survey details, Page 12

Employees rate salary second to job benefits

By Our Labour Staff

FORTY PER CENT of employees would like to work for a smaller company and most think they get less out of their present job than they could realistically expect, according to a survey undertaken by the Henley management college.

This found that most workers valued most highly aspects of their jobs such as training and health care rather than immediate financial rewards.

The benefits most appreciated by staff were sick pay, medical insurance, health checks, and opportunities for further education and training. They also rated highly non-material benefits such as recognition for their work.

Having clearly defined expectations in a job and the opportunity to innovate were both rated more highly than financial benefits by employees in the survey. Good communications were rated just below that.

Considerable variations were found among the attitudes of employees in various sectors and regions. Health care benefits were rated second most important in the south-east region, hnt only 14th in Midland and East Anglia.

In the north-west region, financial benefits were rated most highly of all factors, followed by recognition and the opportunity to innovate. In the north-east, good communication, recognition and career progression came top.

Variations among industry sectors were greater than those among regions. Further education ranked lower in traditional manufacturing sectors, but was seen as important in the financial and leisure sectors.

Company size also made a difference to how employees rated benefits. In large companies, health care and further education were most highly rated. In small, defined expectations and opportunity to innovate were important.

Perks in Perspective: Henley Management College study in association with Luncheon Vouchers Ltd, 50 Vauxhall Bridge Road, London SW1V 2RS.

Wage settlements forecast to move sharply ahead

By John Gapper, Labour Staff

PRESSURES on negotiators are likely to lead to pay continuing to rise sharply in the autumn round of settlements, according to the latest report by Incomes Data Services, the pay research group.

The report says that one pressure will be the second half of the Ford Motor Company two-year pay deal for 32,500 workers in November. This was expected to be about 7 per cent but it is likely to be higher because it is linked to inflation.

IDS estimates that it will now be around 8.5 per cent – 6 per cent from inflation plus 2.5 per cent. It says that average earnings are now rising at an annual rate of 8.25 per cent, and real disposable incomes are growing sharply.

Even with lower inflation in the past two years, pay is said to have moved ahead because of good company results, higher output and productivity level, a tighter labour market and the emergence of awkward skill shortages.

In the cases where companies have decided to move towards merit and performance-related pay structures, these have most frequently come on top of general increases and have at least matched the rate of inflation.

The report argues that the next year could be a "critical period" for pay bargaining because of uncertainty about the economy.

Upwards pressures on pay in the next six months are said to inclnde the higher inflation rate, competition for labour and for skills, comparability with companies in the same sector, and public sector moves to combat high turnover rates.

Among the mixture of pay pressures, it cites an increased awareness of the fall in the number of school leavers, decentralisation of pay bargaining, a lack of growth in long-term pay deals and labour turnover rates in the south-east of England.

Downwards pressures on pay will include the higher cost of borrowing money, uncertainty about exchange rates and the possibility of slower growth and output in 1989. The rate of acceleration in London allowances may slow considerably.

IDS Report No 529. Incomes Data Services, 193 St John Street, London EC1V 4LS. By subscription.

Employers settled for higher deals this year

By Our Labour Staff

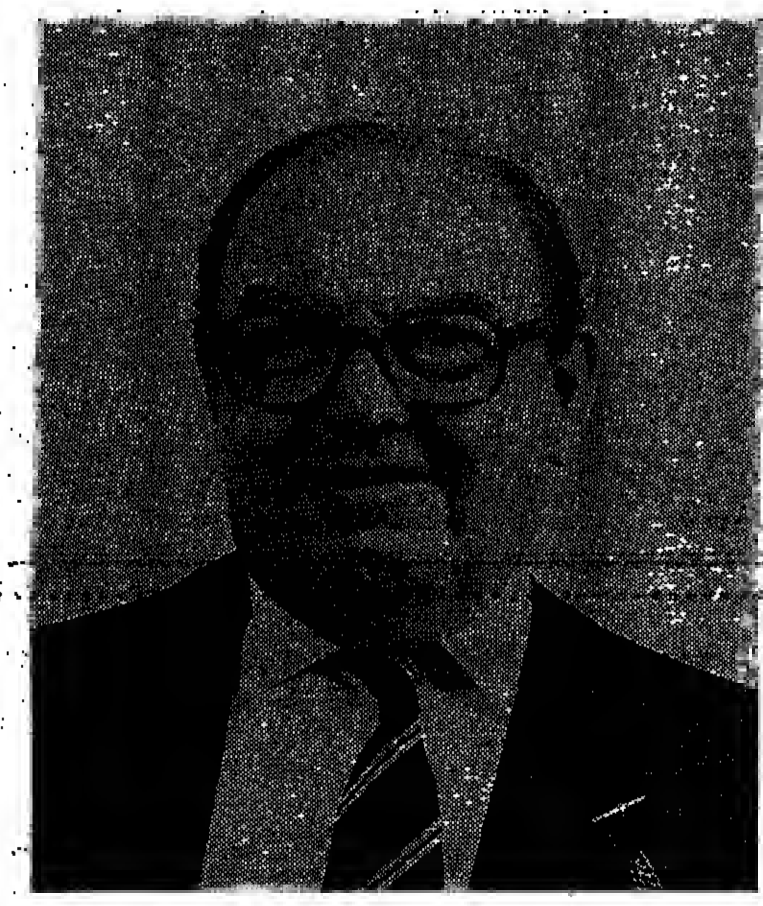
LEADING employers in many business sectors have tended to reach higher pay settlements this year than last, according to the IDS. Of 43 companies questioned, only six settled lower, while 18 settled higher.

The survey finds that although most companies in the key sectors have settled at 5 to 7 per cent each year for the past five years, there is little evidence of pay increases tending to cluster around a particular level within sectors.

However, there have been different patterns in the type and size of pay settlements between sectors:

- In electrical and electronic engineering, basic pay increases have made up only a small part of the total rise in earnings, which has often been topped up with merit pay, increments and skills payments.
- In chemicals, most of the large companies gave higher increases this year than last.
- Several large retailers settled lower this year than last, including Marks and Spencer, J. Sainsbury and BhS. This partly reflects a lead set by the wages councils in the sector.
- Settlements in finance companies in the past year have generally been at least 6 per cent, with banks agreeing increases of 7 per cent or more. There have been substantial location allowances in the south-east of England.

"The practical support we give our Volunteer Reserves is more than repaid by the extra commitment they give back to the company."



Sir John Clark.
Chairman and Chief Executive, The Plessey Company plc.

"The skills, responsibility and self-discipline our Volunteer Reserves acquire through their military training enhances their value to the company considerably.

These benefits are not just seen at their place of work but also when dealing with our customers and meeting their needs.

Our practical support for their Reserve Force activities is more than repaid by the extra commitment they give back to the company."

John Clark.

Mark Bretton.
Logistics Administration Manager, Plessey Defence Systems Ltd.
Captain. Royal Signals. Territorial Army.

"I find it most useful being able to apply my Territorial Army training at work. As a member of a Signals Regiment and in the communications industry, I understand my customers and their needs better. That, I feel, gives me an edge, which is a real confidence builder.

It's something the TA have helped me develop specifically through special presentation skills training.

But it's more than that, my TA training has enabled me to set objectives and think ahead and I've also learnt how to deal with and manage people better, which I think makes me more effective."

Mark Bretton

PLESSEY

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World trade share down, Ernst & Whinney finds

By Simon Holberton, Economics Staff

BRITAIN'S share of world trade in manufactured goods fell sharply during the past year, resuming its long-term trend of decline, an economic forecaster using Treasury data said yesterday.

The Ernst & Whinney Item Club said that the rapid deterioration in UK trade had occurred not only because domestic demand was growing too fast but also because British industry was failing to compete abroad because of the strength of the pound.

The forecaster implicitly challenges the Treasury's view, as presented in the March Budget, that Britain's share of world trade has remained broadly stable since 1981 and the Budget view that "this improved performance is forecast to continue in 1988."

It comes ahead of the release tomorrow of the August trade figures. In July, Britain had a record current-account deficit of more than £2.1bn, and the consensus of City economists' expectations for August is for a deficit of £1.4bn.

In spite of the recent run of poor trade figures, the Treasury has emphasised that British industry has not lost competitiveness. On the contrary, it has noted the extremely robust growth in exports.

At the time of the July trade figures, the Treasury pointed out that exports of manufactures were 8.5 per cent higher than a year earlier and exports overall were 5.5 per cent higher than the level of a year ago.

The Item Club, which bases its economic forecasts on the Treasury's model of the UK, estimated that Britain's share of world trade "plunged in the past year from 7.5 per cent to 6.9 per cent" after referring to the latest figures for growth in world trade in the data used for the Treasury's model.

It said that the key to sustained improvement in the UK trade balance lay not only with curtailing the growth in domestic demand but also in raising competitiveness. Item said: "These two aims, however, are not compatible, since the raising of interest rates to curtail domestic demand will have the effect of slowing productivity gains and raising the value of the pound."

It supports, however, the present strategy of high interest rates to curb growth in domestic demand and keep sterling firm on the foreign exchanges, but said that the issue of competitiveness would have to be addressed. "This may involve allowing the pound to weaken."

The trade data, which were made public recently, shows that world trade in manufactured goods (weighted by UK markets) grew by about 14 per cent in the year to March 1988, compared with the Treasury's Budget forecast of 5 per cent for the year as a whole.

The new world trade figures include large revisions to the growth in trade back to 1981, and Item believes they may not have been available to the Treasury at the time of the formation of the March Budget.

Murata plant plan may create 500 jobs

By Terry Dodsworth, Industrial Editor

MURATA, a Japanese supplier of electronic components for computer, television and car-telephone industries, aims to create about 500 jobs at its planned first UK plant, after rapid growth in the past five years.

It set up a wholly owned sales subsidiary in Britain six years ago, since when its sales have grown to £16.5m this year. It is looking at two potential plant sites with the aim of producing in Britain by the end of next year.

Its move reflects what is expected to be a strong wave of Japanese investment in the UK electronics industry as components suppliers follow equipment makers to Britain.

Almost all television sets produced in the UK are made in Japanese-owned plants. Japanese manufacturing is also growing in office equipment and telecommunications fields.

Makers of such goods have often encouraged Japanese components suppliers to follow them, particularly in areas where they have been dissatisfied with British-made parts.

Murata specialises in ceramic-based products. Demand for its components is forecast in the rapidly expanding car telephone field where it supplies filters to purify signals received by mobile handsets.

It is the main maker of devices producing the warble on the latest telephone handsets.

Murata employs about 70 people in UK sales and administration. It said growth was so strong it aimed to invest about £14m on its proposed plant in the next few years.

The company is expecting to achieve a 50 per cent rise in turnover next year.

Mr Terry Churcher, UK marketing director, says: "The expansion plan is ambitious but it is feasible given the market conditions."

Murata worldwide had $1.7bn (£1.02bn) sales and $330m pre-tax profits in its past financial year. It says it is Japan's third-largest electronics components maker. It has facilities in North and South America.

Telecom company wants only two cordless phone operators

By Terry Dodsworth, Industrial Editor

GPT, THE joint venture telecommunications company owned by General Electric Company and Plessey, wants the Government to license only two companies to operate the planned new cordless telephone system due to be launched next year.

The company's comments follow the Government's decision to invite bids from potential network operators during the next four weeks.

The Department of Trade and Industry, in guidance notes to prospective bidders, says it will award 12-year licences to between two and four operators.

The cordless telephone project aims to develop mobile telephones that work in the home and at selected entry points to the conventional phone system.

Customers will be able to carry small, cordless telephones around with them, making calls via a radio link to specially installed receivers at marked locations such as railway stations, large stores or petrol stations.

About 10 companies are believed to have expressed interest in constructing the networks, including Ferranti, the UK pioneer of the technology, British Telecom, Mercury, Racal and GPT.

Mr Fred Sasse, GPT director of mobile communications, says the company believes a cordless system based on two operators would lead to the most effective service.

He expected the market to be extremely competitive, whatever structure the Government decided on, but if too many operators were licensed, profit margins would become exceptionally thin.

GPT's views are not shared by other companies, such as Ferranti, which says it has worked out its strategy on the basis of four potential operators. However, Mr Sasse argues that with tariffs for the service likely to be only marginally higher than the price of a call from a public telephone, it might be hard to make a reasonable financial return if the market is split among too many operators.

Forecasts for the size of the potential market, both in terms of subscribers and number of calls likely to be made, vary widely.

Most of the interested companies believe it will be possible to sign up a total of about 1m customers within three years of launching the service, and some put the figure as high as 3m. However, there are strong divisions between those companies which believe that most demand will come from businessmen, and those arguing that the market will quickly extend to the general public.

Duel for a deal to destroy the tank

David White on a competition to develop a weapon for the RAF

TWO CONSORTIA are waiting for the Government to plough funds into two solutions to the same problem: the Royal Air Force's need for a new anti-tank weapon.

The cost of developing and manufacturing a system is expected to run to several hundred million pounds, possibly close to £1bn, according to one of the contestants. Potential exports might take the programme well beyond that.

The two Anglo-US groups concerned are GEC-Marconi, teamed with Rockwell, and Hunting Engineering, teamed with Honeywell, with back-up from Diehl of West Germany. They expect shortly to receive the first millions for early development. After one or two years' further research into their projects, one is expected to be selected for completion of development.

Ministry of Defence officials are extremely cagey about the whole business. No decisions have yet been made, they maintain. They will not comment on time-scale, money, firepower or the seriousness of the gap the new system is meant to fill, except to admit a need for "significantly greater capability in this area."

Developments in Soviet tank armour, with greatly improved protection against the present range of precision weapons, have been the subject of feverish activity at the MoD for several years.

The proposed new systems would provide "fire-and-forget" weapons suitable for fixed-wing aircraft flying at low level, placing little burden on the pilot and enabling him to move rapidly out of the area.

David Fletcher: Making sure Marconi can do it

Fire-and-forget weapons are those which seek out their target without the need for manual guidance.

The main requirement is for the new GR5 version of British Aerospace's Harrier jump-jet, but the weapons would also be compatible with the Anglo-German-Italian Tornado.

The MoD, facing cost pressures, wants an economical and risk-free solution, at least for the interim period while a Nato Modular Stand-Off Weapon programme takes shape.

The field has been narrowed down from an initial eight bids, including one by BAe with the Hughes Maverick, a missile in service with the US Air Force, but adapted to meet the low-flying requirement.

Marconi, starting with low cost as its main aim, also went for an existing US missile. The British group is still smarting from the failure of the Nimrod airborne early warning programme.

"We are not going to offer something we are not sure we can do," says Mr David Fletcher, managing director of Marconi Defence Systems.

It opted two years ago for the Hellfire, a lighter and cheaper missile than the Maverick, made by Rockwell and substantially funded by the US Army. Out of Hellfire came Brimstone, Marconi's millimetre-wave version. It is seen as a crucial advance on its predecessor.

Hellfire is semi-active, homing in on targets designated by lasers. That requires someone to transmit the laser beam, from the air or ground, and is described by Marconi as very difficult logistically.

The company's answer was to build in a "very intelligent" radar able to look for and identify a target as a tank and not something else. It claims Brimstone will be able to peer through tree cover, find its tank and hit it. That is seen as a big improvement on infra-red homing devices, which "cannot tell the difference between a tank and a cow, or a broken-down car."

Other aspects of the missile are being improved by Rockwell with official US backing. Brimstone, hanging in clusters of four under the aircraft's wings, could be loaded by two men – important for rearming Harriers operating from hides on a battlefield.

Marconi claims it is extremely versatile, suitable for fitting on helicopters and even trucks, and for use as an anti-helicopter weapon. It sees uses for it with both the RAF and army, possibly with the Royal Navy, and with the US Army and Marine Corps. Rockwell would assume the role of prime contractor in the US.

Hunting, breaking with its traditional secretiveness, decided to display a model of its proposal at this month's Farnborough Air Show. Its Swaarm system (Smart Weapon Anti-Armour) is based on the US Sadarm (Sense and Destroy Armor) programme, and would be a successor to the UK company's BL 755 cluster weapon currently in production for the RAF.

Swaarm, described as a short-range, stand-off weapon capable of "multiple kills per pass," consists of a winged dispenser containing 16 munitions.

The dispenser is designed to climb after it is launched, rising behind the aircraft, then releasing its munitions. These have a controlled descent, with a parachute sending each one into a decreasing spiral pattern as it searches out a target. In the last phase, a slug is fired at the tank.

Hunting, which is aiming at production in the early 1990s, says the system can be adapted for higher-level release.

Far from criticising Hunting's bid, Marconi says it is supportive of the idea. The dispenser concept is "before its time," says Mr Ray Mathews, director of Marconi's guided weapons division. "In five or 10 years it will become right."

Protest likely over Guinness trial delay

By Raymond Hughes, Law Courts Correspondent

LAWYERS for some of the seven men accused of criminal offences in the Guinness affair are likely to protest before Bow Street magistrates today about a further delay in bringing the case to trial.

The Serious Fraud Office, the prosecuting authority, is to seek a further adjournment before having the case transferred for trial at the Old Bailey.

It had been anticipated that regulations enabling serious criminal cases to go straight to a Crown Court without a committal hearing before magistrates would be in operation by the end of this month, enabling the Guinness trial to start this autumn.

Last week, however, the Home Office announced that the regulations would not come into force until October 31.

The regulations are being made under amendments to the 1987 Criminal Justice Act.

A further complication is the SFO's decision to alter in form – although not, it is understood, in substance – the more than 100 charges that have been brought against the seven accused. The alterations apparently involve linking various of the defendants in connection with particular alleged offences.

According to the SFO, the charges have been "rationalised" and the substituted charges will be put to the accused men today.

The seven are Mr Ernest Saunders, former Guinness chairman; Mr Gerald Ronson, chairman of the Heron Corporation; Sir Jack Lyons, the millionaire financier; Mr Roger Seelig, the former Morgan Grenfell director; Lord Spens, former head of corporate finance at the Henry Ansbacher merchant bank; Mr Anthony Parnes, a former City stockbroker, and Mr David Mayhew, senior corporate finance partner of stockbroker Cazenove & Co.

At present, Mr Saunders faces 42 charges, Mr Ronson eight, Sir Jack Lyons nine, Mr Seelig 19, Lord Spens four, Mr Parnes 19 and Mr Mayhew four.

Stores bid rumours dismissed

By Maggie Urry

SPECULATION about bid activity in the stores sector has been dismissed by Phillips & Drew, the stockbroker.

The firm says in a circular: "The premium in the rating of bid stocks in the sector is very difficult to justify: we now view the stores sector as an unlikely area for corporate activity."

In the past few years, there have been many takeover bids and mergers among stores groups. Bid rumours have of late pushed up the shares of companies such as Sears, Storehouse and Boots, against a general trend in which retail shares have underperformed the stock market as a whole.

Phillips & Drew says there are now few companies within the sector that would bid for others and, furthermore, outsiders are less likely to bid.

While the derating of the sector has brought share prices within the range of leveraged buy-outs (where high borrowings are secured on the assets acquired), the rise in interest rates is a deterrent.

Foreign bidders might be put off the UK retail market, now highly concentrated and mature. In spite of a good consumer spending background, says Phillips & Drew, "almost across the board, profits growth in the UK stores sector has faltered seriously over the last 18 months."

In common with other analysts, Phillips & Drew predicts a worsening of the business climate for retailers.

Lex, Page 32

Nacro calls for prisons ombudsman

A PRISONS ombudsman should be appointed to investigate complaints about the treatment of jail inmates, according to a report published today.

It would be the single most effective step to ensure that grievances were dealt with properly, says the National Association for the Care and Resettlement of Offenders.

The appointment might reduce tensions in prisons and help to protect staff from unfounded allegations. Current procedures for dealing with prisoners' complaints have "important drawbacks or limitations," the report says.

"In other countries where Prisons Ombudsman exist, such as Canada and parts of the USA . . . these officials exercise an important beneficial influence on prison administration."

Investigations of complaints by prison governors are not – or appear not to be – independent, it adds.

Boards of visitors, which are separate from management, have a potentially valuable role in the grievance system. Boards vary, however, in their accessibility to inmates, have no decision-making power, and have only a limited capacity for investigation.

They should surrender their disciplinary functions to a separate Prison Disciplinary Tribunal, says Nacro.

The report proposes tighter monitoring of the progress of petitions to the Home Secretary, who took an "inordinate length of time" to deal with some appeals.

"A new channel for prisoners' complaints is needed which is more thorough, effective and accessible than the present procedures and is independent of the Home Office," says the report.

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Senior Partners, Cazenove & Co.

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Senior Partner, Healey & Baker.

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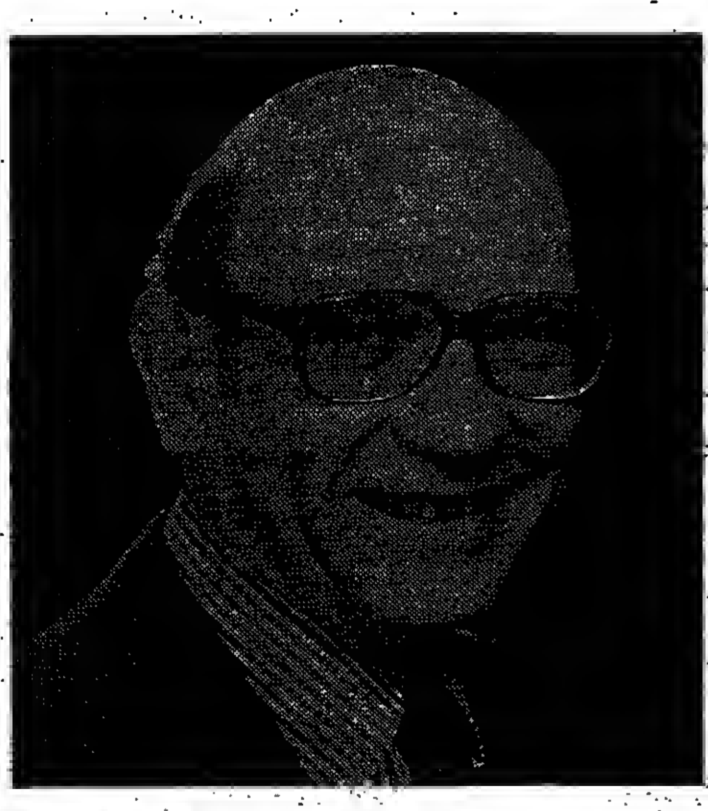
Healey & Baker



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Managing Director, The Union Discount Company of London, p.l.c.

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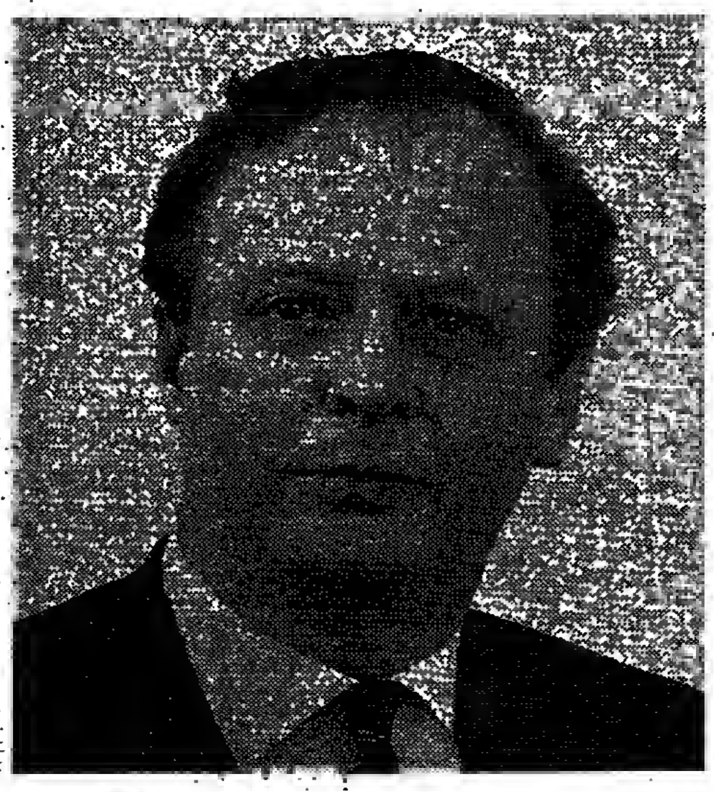
The Union Discount Company of London, p.l.c.



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Director, S. G. Warburg & Co. Ltd.

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Volunteer Reserve Forces – Territorial Army, Royal Naval and Royal Marines Reserve and Royal Auxiliary Air Force

The truth is, we need them.

UK NEWS

Bank finds gaps in institutions' grasp of 1992

By David Lascelles, Banking Editor

UK FINANCIAL institutions suffer from "gaps in knowledge" about the European Community's plan to create a single market by the end of 1992, according to the Bank of England.

This is the bank's preliminary assessment of the results of a 1992 questionnaire, which it sent out earlier this year to several hundred UK-based financial institutions and trade associations.

The survey is believed to be the most thorough undertaken on the UK financial service sector's readiness for the single market, and the bank's full report is being awaited with some interest in the City.

Sir George Blunden, the bank's deputy governor, said in a speech last week that "the initial responses, although encouraging in their optimism, revealed "gaps in knowledge."

He said: "Some practitioners are unclear exactly how Community legislation on the single market works and how it will affect them. No doubt the pitfalls of 'Eurojargon' explain some of the confusion as companies struggle to differentiate between terms such as mutual recognition, home and host control, approximation and harmonisation."

The bank will now hold bilateral talks with some of the larger respondents. The full report will be presented to the City Liaison Committee, a body sponsored by the bank, chaired by its governor and through which it maintains links with practitioners.

A look at the rise and rise of the world car market

Kevin Done analyses a study indicating how directions will change in the industry until the year 2000

WORLD car sales are forecast to rise from 31m units in 1985 to about 46.5m units in the year 2000, an increase of 48.5 per cent, according to a study produced by the Economist Intelligence Unit.

In the space of 15 years the share held by the US and Canada in the world car market will have fallen from some 38.3 per cent in 1985 to 32.6 per cent in 2000, while the share of West Europe will show a marginal decline to 32.6 per cent.

Together they will still account for 65 per cent of world car sales, however, and the EIU study spells out that 80 per cent of world vehicle sales will continue to be made in countries accounting for only 20 per cent of the world's population. Just 10 countries will account for 34.7m sales in 2,000 – 74.5 per cent of the total.

According to the report, some 78 per cent of the world car fleet is kept in 10 countries and 81 per cent of the fleet is kept in OECD countries, which have 15 per cent of the world population. The number of cars in the world will have increased by 49 per cent in the year 2000 to reach 550m compared with 370m in 1985.

The infrastructure needed in order to allow wide ownership of automobiles is complex and expensive and will be beyond the reach of 70 per cent of the world's population by even 2025, let alone 2000.

By the end of the century, world scrap rates will have risen to 31.8m units a year, with some 68 per cent of new car sales going towards replacing scrapped cars.

Strong sales growth is forecast in Eastern bloc countries and in newly industrialised countries, chiefly South Korea, Brazil, Mexico and Taiwan.

The motor industry is an important player on the international stage. Of the world's 30 largest corporations, nine are motor manufacturers.

The EIU study calculates that the combined sales revenues of General Motors and Ford in 1986, at $165.5bn, were equivalent to the combined gross national products of three European Community members – Belgium, Denmark and Greece. GM's sales revenue of $102.8bn was equal to the combined GNPs of Greece and Taiwan.

Mr Max Pemberton, author of the study and formerly planning and strategy manager for overseas sales within Rover Group's sales and marketing division, says that no alternative to the internal combustion engine is remotely possible in the years to the end of the century.

The EIU report suggests that capacity exists to produce 40.25m vehicles a year compared with the 32.2m actually produced in 1985, giving an excess capacity of around 8m units and a capacity utilisation of 80 per cent.

Existing capacity could in theory satisfy demand in terms of annual sales up to 1995, but competition is fierce and the report says that the likelihood of another casualty in the manufacturing sector is virtually certain. West Europe is the most probable area for the casualty to occur.

Overall the report suggests that:

- More of the vehicles sold in North America will be built there.
- More of the vehicles sold in West Europe will be built there.
- The number of vehicles built in Japan will reduce.
- Eastern bloc capacity will increase and a big export programme will commence.
- Western penetration into Eastern bloc countries will remain low.
- Import penetration in Japan will remain low.
- HQ US companies' share will increase.
- HQ Japan companies' share will increase, while HQ West Europe companies' share will fall.
- A new oil crisis will affect the structure of the industry.

The EIU report says that while all car manufacturers had earlier sought to export to gain incremental sales from a healthy home base, a point has been reached where volumes, distances and international economic factors have combined to cause each manufacturer to reconsider basic strategy.

"About 14m vehicles are imported and exported each year and the stocks and financing costs of supporting this operation are horrendous," it says.

The World Car Industry to the Year 2000, by Max Pemberton. Economist Intelligence Unit, 40 Duke Street, London W1A 1DW. UK and Europe £175, US $345, rest of world £178.

Projections of world car production by company HQ location, 1990 and 2000

	1985* '000 units	% of total	1990 '000 units	% of total	2000 '000 units	% of total
Western Europe	9,011	28.0	9,300	26.2	10,273	22.1
North America	12,330	38.2	13,000	36.6	15,775	33.9
Japan	7,884	24.8	9,400	26.5	12,943	27.8
Eastern bloc	2,357	7.3	2,739	7.7	4,461	9.6
Others	551	1.7	1,061	3.0	3,047	6.5
Total	32,223	100.0	35,500	100.0	46,500	100.0

* Actual

Projections of world production of cars by region, 1990 and 2000

	1985* '000 units	% of total	1990 '000 units	% of total	2000 '000 units	total
Western Europe	11,216	34.8	13,289	37.4	17,605	37.9
North America	9,263	28.7	10,433	29.4	13,580	29.2
Japan	7,647	23.7	6,500	18.0	8,155	17.5
Eastern bloc	2,357	7.3	2,739	7.7	4,461	9.6
Others	1,750	5.4	2,539	6.4	2,699	5.8
Total	32,223	100.0	35,500	100.0	46,500	100.0

* Actual Source: Economist Intelligence Unit

More savings and austerity predicted

By David Barchard

A SWING from consumer spending to savings and relative austerity is predicted in a report on saving habits issued today by Mintel, the market analysts.

The report says that, to savers, confidence and security are often more important than logical analysis of an investment's value.

Insecurity caused by higher inflation rates may lead consumers to save more, even though the real interest rate on savings is negative. However, as a cushion against hard times, they are likely to keep most savings as cash deposits, not as unit trusts, stocks and shares.

That tendency has been accentuated by savers' reaction to the stock market crash last October and by the flight from unit trusts. It suggests that unit trusts, numbering about 1,200, may be above the market's optimum.

Inherited lump sums, usually from selling a family home on a parent's death, play a growing part in the savings market.

The report says many such funds are used to trade up in the housing market or placed in conventional savings mediums.

The report says that of institutions likely to be chosen by savers as sources of sound advice on finance and savings, bank managers are likely to be preferred to stockbrokers, insurance agents, accountants or building society managers.

However, societies are well placed to challenge banks: they diversify to new markets and offer attractive, innovative investment products.

The report doubts official figures for the savings ratio, which it says may be too low.

Consumer Savings and Investment. Mintel, 7 Arundel Street, London WC2. £550.

Only one in five schoolchildren 'has regular business contact'

By David Thomas, Education Correspondent

THE NEED for schools and businesses to develop closer links is one of the unchallenged platitudes of British debate. Almost no one is opposed to breaking down the barriers of mutual ignorance separating the worlds of education and work.

In spite of such enthusiasm, there has been little information on progress, other than an impression of more activity, prompted partly by well publicised national initiatives such as the 1986 Industry Year.

This gap has now been filled by a survey carried out for the Confederation of British Industry. Results are published today. Undertaken by Booz Allen and Hamilton, it examined the experience of more than 1,500 secondary schools, nearly 1,000 companies and more than 80 education authorities.

Results are mixed: some depressing, others surprising and some offer hope.

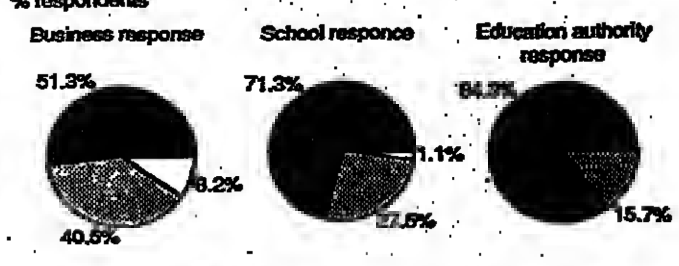
The most depressing finding was that nearly 40 per cent of schools and 54 per cent of businesses lack regular links. One in five pupils, at best, has sustained contact with business.

Moreover, most pupils emerge from school with no understanding of small businesses. Schools reported that 51 per cent of their links were with concerns employing more than 500 workers, while only 16 per cent were with companies of fewer than 50 people.

Most contact is of a traditional kind; most popular is offering pupils work experience, factory or office visits and talks by business people.

More demanding links, such as co-operation between schools and businesses on curriculum development, business training for teachers and encouraging employees to become school governors, were well down on the list.

Are there enough school-business links in your area?



Source: Booz Allen

The surprises came when the survey team tried to find out which side was the driving force behind liaison. Conventional business wisdom is that Britain's schools are packed with teachers happy to remain ignorant of employers' needs.

However, school and business respondents in the survey agreed that teachers had initiated links more often than employers, although the two sides differed in their estimates of the figures.

Mr John Lawrence, leader of the survey team, believes there has been an upsurge in school interest since Industry Year. He said that resources from the business side represented the main area for improvement.

Confusion about the options is a key factor apparently inhibiting business interest, apart from lack of time, which was identified as an obstacle in both school and employer responses. Many routes for companies to become involved in schools have opened up in the 1980s, most served by link organisations.

However, the survey showed up considerable employer ignorance of the school-business link activities of organisations such as the Chambers of Commerce and the Industrial Society. It also uncovered a strong employer wish for such bodies to rationalise their activities.

The good news is that the survey found much support for school-business contact. Employers saw the prime link objectives as improving attitudes to business, followed by boosting teachers' business understanding and raising companies' profiles in the community. Many – 41 per cent – rated existing links as highly effective, with only a tenth considering them poor.

Schools' goals do not differ greatly: they believe links could broaden education, boost pupils' grasp of business issues and improve employers' understanding of schools. Most schools – 55 per cent – also rated existing links as highly effective, with only 6 per cent finding them poor.

Almost a third of schools and 16 per cent of businesses surveyed had scrapped links that had once existed, in each case blaming the other side. However, 84 per cent of businesses and three quarters of the schools with links said they would be prepared to respond to initiatives to develop the relationship.

Secondary heads urge A level reform

By David Thomas, Education Correspondent

BRITAIN'S secondary school heads have warned the Government that pupils completing the new 16-plus GCSE exam will find it difficult to cope in the sixth form.

The warning is issued in a letter to Mr Kenneth Baker, Education Secretary, from the Secondary Heads Association, representing the majority of the leaders of Britain's secondary schools.

The letter is intended to prod the Government into reforming the A level system. It reinforces earlier fears that the practical approach of the GCSE would not be a sound preparation for the academically focused A levels.

Earlier this year, the Government rejected the main recommendations of the official Higginson committee, which proposed a fundamental overhaul of the A level system.

The Government wants schools to take up the AS exam, widely regarded as equivalent to half an A level, as a means to broaden the sixth form curriculum.

However, Mr John Sutton, general secretary of the secondary heads, said in his letter to Mr Baker: "I have to tell you that there is little support amongst our members for these examinations as at present constituted on either educational or practical grounds."

Advice agencies report record level of inquiries

WORRIES over social security and personal debt are placing record demands on Britain'a advice agencies.

The National Association of Citizen's Advice Bureaux today reports that inquiries last year reached 7.2m, the highest ever.

The association says the workload is rising faster than funding. Funding constraints and the need to make detailed inquiries meant some offices had to close early.

Bureaux funding from local authorities and central government – more than £23m in total – have just kept pace with inflation but cash from the private sector is well below target at £250,000.

The report shows social security and consumer debt inquiries dominate hureau *workloads.*

"By following the lead of our major companies you too could gain a new dimension in your staff and make a positive contribution to the defence of the nation."

Tommy Macpherson,
Chairman, National Employers' Liaison Committee.

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Leadership, a commitment to career and employer, a sense of responsibility and the ability to communicate clearly are the qualities you can find in members of the Volunteer Reserve Forces – qualities we all know are necessary for any business to profit and prosper into the next century.

This is not a recruitment drive. The primary responsibility of the National Employers' Liaison Committee is to ensure that the partnership between Britain's employers and the Volunteer Reserve Forces is both profitable and effective.

That is why NELC was created. Our campaign to bring this to fruition begins now.

You can find out more about NELC, how your own company could benefit from this partnership and what it all means, by sending the coupon below." Tommy Macpherson

To: Mr R.T.S. Macpherson, CBE MC TD DL, NELC Secretariat, G Block, Duke of York's Headquarters, Chelsea, London SW3 4SS.
Please send me the NELC Chairman's Pack.

COMPANY ____________________

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Labour to counter-attack over handling of economy

By Peter Riddell, Political Editor

LABOUR leaders will tonight discuss a strategy paper aimed at using next week's annual conference in Blackpool as a springboard for a counter-attack by the party after its internal divisions of the past six months.

The main theme will be a concerted assault on the Government over its handling of the economy, together with an emphasis on Labour's drive to modernise its policies and to create a mass-membership party.

The paper for tonight's meeting of the campaign strategy committee suggests that the party has grounds for optimism. In particular, it suggests that the Tories' continued lead over Labour in the polls – confirmed at 47 per cent against 38 per cent in a Harris survey in yesterday's Observer – reflects the usual summer position when the Commons is not sitting and the opposition receives less public atteotion. There bas been tbe sdditional adverse factor this summer of the leadership election, which has underlined party divisions.

However, party leaders believe that several factors have recently helped to remove the clouds hanging over the party during the past few months. These include the decision of the transport workers to support the current leadership in next Sunday's ballot, together with the evidence from 69 ballots of members held by constituency parties taking a similar line.

In addition, the party's national executive is expected to decide on Wednesday that the TUC's vote this month to expel the electricians does not affect the EEPTU's status as a bona fide trade union, and hence its membership of the Labour Party. That should ease, if not remove, a possible source of controversy.

Party leaders hope that resounding victories for Mr Neil Kinnock and Mr Roy Hattersley will create the momentum for such a counter-attack and overshadow a possible reduction in the leadership's very large majority on the national executive and any confereoce resolntions that qualify, or even contradict, parts of the policy review.

At the heart of this claimed optimism is the leaders' belief that the public is becoming more nervous about personal financial prospects in view of rising interest rates and inflation. Labour argues that the Government's image of delivering rising living standards is being undermined by the higher mortgage rates cancelling out the benefit of the Budget's tax cuts.

That theme will be hammered home in a series of speeches from Mr John Smith, the Shadow Chancellor, and Mr Gordon Brown, the Shadow Chief Secretary, by a party political broadcast in mid-October during the Conservative conference focusing on the "hollow ring" of government statements, and in the Commons after the House returns on October 19.

Based both on recent opinion polls and private research, party leaders claim evidence of public insecurity abont the economy and about what is happening to the country.

Call to leapfrog Thatcherism

By Our Political Editor

THE Labour Party needs to leapfrog Thatcherism through its current reviews of policy, Mr Bryan Gould, its trade and industry spokesman, says in next mooth's issue of Marxism Today, the British Communist Party's journal.

He saye Labonr has "to recognise that society has changed and the requirements of the modern economy are differeot."

He says: "If we're to grapple with those requirements, we have not just to outflank but to leapfrog Thatcher in terms of what we inteod to do with the ecooomy, the relevance of our policies, how we get popular support for those policies."

He refers to criticism in the party of his view of wider share ownership and says that shows the danger of being frightened by labels.

"As soon as you mention, in some quarters of the left, the word 'shares,' you're assumed to be a raging capitalist.

"Shares are simply a form of property which carry with them certain rights and if they're organised in certain ways it may on occasions be appropriate to transfer the rights of share ownership from one group of people to the people we would like to see exercising them."

The journal has articles on the theme that Britain is entering an era not dominated by mass production by many unionised male workers.

Contributors say the radical right and some unions have responded to this economic, cultural change but that the left has failed to recognise it.

They urge development of socialist individualism, as an alternative to Thatcherism, based on community values.

Tories do well from members of FT-SE 100

By Peter Riddell

NEARLY half the constituents of the FT-SE 100-share index made political donations in 1987, the year of the British general election. Most of the money by far went to the Conservative Party.

A survey by the Labour Party of the 1987 accounts of 1,300 publicly-quoted companies shows that at least 303 made donations totalling slightly more than a record £4m. That underestimates total corporate contributions, since many public companies are not covered, nor are any private ones.

The list of donors shows that 44 are in the FT-SE 100. The most prominent non-donors are companies that make no political contributions on principle, such as ICI, and recently privatised concerns such as British Telecom, British Gas and British Airways, with the exception of Rolls-Royce, which gave the Tories £50,000.

The heaviest support came from leading manufacturing concerns, the clearing banks and insurance companies, also groups with chairmen who are friendly with Mrs Thatcher. For instance, of the five companies making donations of £100,000 or more last year – British and Commonwealth, Hanson Trust, P&O and United Biscuits – the chairmen of the last three have close links with senior Tories.

The Labour survey indicates that some £3.85m was donated last year directly to the Tories or, indirectly, to sympathetic and closely associated industrialists' councils.

That represented an 85 per cent increase over the previous year, although the figures were only 15 per cent up on the previous election year of 1983. In inflation-adjusted terms, there was a 5 per cent drop in donations.

A total of just more than £70,000 was donated to the former SDP/Liberal Alliance by 16 companies. Donors included General Accident, Laporte Industries, Lonrho, Morgan Crucible, Pearson, proprietor of the Financial Times, and Vickers.

Dowty wins £300m Airbus contract

By John Griffiths

DOWTY, the UK aerospace and electronics group, has won a $500m (£300m) contract to supply the main landing gear for A330 and A340 long-distance Airbus types.

It is by far the largest single order won by Dowty, which tendered for it with a US partner, Cleveland Pneumatic Industries.

It lifts to $700m the total value of Dowty's contracts on the new aircraft to date. However, it is also competing for a further $575m worth of business on the Airbuses, decisions on which are still awaited.

The 3,000 employees at Dowty Rotol, the Cheltenham-based subsidiary that will undertake much of the work, were told of the UK company's success against its rival for the contract, Messier-Hispano-Bugatti of France, at a plant meeting on Saturday.

The order follows one worth $200m for flap activators on the A330 and A340 announced at the Farnborough air show. The orders are being placed by British Aerospace, the UK partner in the Airbus.

Dowty is still seeking contracts for the nose landing gear, the computers and actuators to control the landing equipment, ram-air turbines and electronic interface systems.

Deliveries of the landing gear are due to start in two years' time. The business is expected to last for at least 20 years, over which time some 800 A330s and A340s are expected to be built.

Dowty, which claimed that the French Government was giving Messier aid for its bid to win the contract, sought but failed to gain some UK Government support for its own bid.

The contracts come at a time of hectic activity for Dowty on several fronts, not least in the process of absorbing Case, the computer networking group it took over in July for £82m.

Mr Tony Thatcher, group chief executive, has already announced Dowty's intention to close Case's manufacturing capacity in the US.

Dowty made £64m pre-tax profit on £625m turnover last year.

Surge in semiconductor sales

By Terry Dodsworth, Industrial Editor

UK SEMICONDUCTOR sales are set to break the annual record established in the boom year of 1984, after showing unexpected strength throughout the summer.

The latest sales forecasts indicate that the industry, which is led by US-owned manufacturers, will ship products worth over £1bn during 1988.

In the largest category, which is integrated circuits, the key products in most electronic equipment, sales are now expected to reach £926m at ex-factory prices.

That is a 30 per cent increase on the £712m worth of chips shipped last year and is well up on the £783m achieved by the industry four years ago, when the UK market was driven to unprecedented heights by the surge in personal computer sales.

The strength of sales this year has taken the industry by surprise.

Only six months ago, manufacturers were forecasting a more gentle 14 per cent increase in the market, but they appear to have underestimated three factors.

First, the sales value of semiconductors used to memorise certain kinds of data, known as dynamic random access memory devices (Drams), has continued at a high level because of product shortages.

Several reasons lie behind the supply difficulties, including technology changes and the US-Japanese trade pact in semiconductors.

It is now thought unlikely that sales and demand will come into balance until well into nextyear.

Second, the computer market has remained stronger than some producers expected. Personal computer sales, in particular, have continued to expand rapidly, fuelling demand in turn for peripheral products such as printers.

Third, new microprocessors, the basic computing devices in desktop machines, have stimulated demand.

That again has driven up sales values because the prices of these devices are at their highest level in the introductory period; they are expected to fall rapidly as volume increases.

The semiconductor market is traditionally highly volatile and several manufacturers believe that the latest demand cycle may well have reached its peak this year.

A slight slippage in the current six months from the performance in the first half of the year is forecast and 1989 predictions are being marked down because of the recent rise in interest rates.

Thames TV backs Rock programme

By Raymond Snoddy

THAMES Television said yesterday it stood by its controversial programme Death on the Rock, in spite of the statement by one of those involved that his account of the death of three IRA terrorists was untrue.

The ITV company will conduct a detailed examination of every aspect of the programme in the light of evidence given at the Gibraltar inquest and a report will be submitted to the Independent Broadcaeting Authority.

Mr Richard Dunn, managing director of Thames, said yesterday: "I believe that the programme was a sound programme and until I find otherwise as the result of a diligent internal examination of everything that happened, that continues to be my view."

At the Gibraltar inquest on Friday Mr Kenneth Asquez, a 20-year-old bank clerk, retracted statements he had made that he had seen a member of the SAS standing on a terrorist and pumping bullets into him.

Mr Dunn said yesterday: "The only fact we know about Mr Asquez is that he is a liar. Was he lying in court or was he lying to us?"

The Thames managing director emphasised yesterday that makers of the programme were sent a statement from Mr Asquez in his own handwriting before a formal statement was taken from him by a solicitor – a statement that Mr Asquez subsequently refused to sign.

Mr Asquez's inquest retraction and increased uncertainty over the evidence of Carmen Proetta, a witness interviewed in Death on the Rock, led to growing political controversy over the weekend. There were attacks on both Thames for making the programme and the IBA

Government challenged on RPI

By Alan Pike

THE Government yesterday faced an Opposition challenge to state that it does not intend to remove mortgage interest rates from official inflation calculations.

Mr John Smith, Labour Shadow Chancellor, said it would be an outrage if the Government changed the Retail Price Index to exclude mortgage interest rates, which have been responsible for much of the recent rise in inflation.

Opposition fears that the Government may be about to recalculate the RPI by removing mortgage interest have been provoked by a decision to recall the committee that advises it on compiling the index.

Department of Employment officials confirm that letters have been sent out reconvening the committee, although no date has been set for a meeting. But it was being emphasised yesterday that no agenda had yet been proposed.

Few other countries include mortgage interest rates in their inflation calculations and Mr Nigel Lawson, the Chancellor, has drawn attention to that in the past. But defenders of the present arrangement say mortgage interest has a proper place in the index, representing the high level of owner occupation in Britain.

The euggestion that mortgage interest rates might disappear from the index has caused concern to welfare organisations since pensions and many benefits are linked to the RPI.

Mr Smith said that it would "corrupt the basis of a crucial economic statistic" to exclude mortgage interest rates from the RPI.

Mr Michael Meacher, Shadow Employment spokesman, said yesterday that when the committee last met in 1986 it had concluded that mortgage interest rates, although by no means ideal for the purpose, remained the most suitable way of calculating housing costs in the RPI. A survey carried ont for the committee showed that more than 80 per cent of consumers favoured their inclusion.

Mr Meacher said: "That position was accepted at the time by Lord Young, then Employment Secretary. If the Government now tries to alter the basis of calculating the RPI for short-term advantage it will turn the index into the same charade to which it has reduced the unemployment figures."

The inflation rate rose from 4.6 per cent in July to 5.7 per cent in August. Increases in mortgage interest rates were responsible for about 0.7 per cent of the rise.

Need for a 'separate Scotland'

By James Buxton, Scottish Correspondent

A LEADING member of the Labour Party in Scotland has urged his party to consider fighting for Scotland to become an independent country within the European Community and abandon the idea of a Scottish assembly within the United Kingdom.

The call came in a weekend speech by Mr John Pollock, a highly respected figure in the Labour Party in Scotland. Mr Pollock recently retired as general secretary of the Educational Institute for Scotland, the leading Scottish teachers' union.

Mr Pollock argued that Scotland badly needed Labour Party policies, yet was unlikely to get them in the foreseeable future.

He said thet a devolved Scottish assembly was unlikely to be eufficient to "meet Scotland's immediate needs."

In any case, Mr Pollock said he doubted whether a Labour government was likely to be elected at Westminster, except in conditions of grave economic crisis. "Does anyone believe that a Labour government in such circumstances would give priority to the economic regeneration of Scotland?" he asked.

Scotland had to argue the case for regional policies directly in the EC after the Single European Act came fully into force in 1992, Mr Pollock said.

Labour's policy for Scotland had to be reconsidered "as a matter of the graatest urgency," he said.

Mr Pollock's call, which conflicts with the unionist, pro-Scottish-assembly official stance of the Labour Party – the largest party in Scotland – is consistent with the policy of the Scottish National Party.

Rosehaugh leases City offices at £40 a sq ft

By Paul Cheeseright, Property Correspondent

ROSEHAUGH PROPERTY group has leased Crusader House, its latest completed City project, to Jardine Insurance Brokers, part of Jardine Matheson group, at more than £40 a sq ft rent.

This is central London's third big leasing in the past month. It shows the market's continuing strength in face of a shortage of immediately available office space.

It follows the decision of Clifford Chance, solicitors, to lease Little Britain, a Wimpey Property development of more than 400,000 sq ft, in the City, at a rent assumed to be more than £40 a sq ft, more than two years before the complex will be completed.

The Crusader deal follows Property Services Agency leasing for the Health and Social Security departments of more than 100,000 sq ft at Adelphi Building, near the Strand in the West End of London, at about £50 a sq ft.

Crusader House, built by Rosehaugh with Wimpey Property and Haslemere Estates, has 106,000 sq ft of office space. It is on Crutched Friars, in the east of the City, traditionally an insurance-company quarter. JIB will use it as world headquarters.

Comparison of the price tha PSA was prepared to pay with the price Jardine is paying signals a shift in central London's market, making, in some cases, West End costs higher than City costs.

While there has been a building surge focused on the City, the effects of which on rents will become apparent over the next 18 months, West End development has been restrained.

Savills, chartered surveyors, said: "Larger West End occupiers, faced with an acute space shortage and rising costs, may be attracted east by the prospect of lower rents, technically efficient buildings and wider choice, so reversing an historic trend."

A move east from the West End by corporate users of office space would relieve fears that the City is heading for oversupply.

Competition for West End space, especially in the district near Parliament, has been intensified by the PSA.

The agency, used by government departments, is in the middle of great activity.

Government departments took much space in central London in the late 1950s and early 1960s.

Leases are expiring and the market's buoyancy has encouraged landowners to repossess, forcing the agency to seek other space.

● The London Docklands Development Corporation has chosen Skillion, Marina Holdings and Sir Alexander Gibb & Partners to develop South Dock Marina and to redevelop adjacent buildings at Surrey Docks, on the south side of the Thames.

Obituary

Mr Basil de Ferranti: electronics chief

MR BASIL de Ferranti, a Conservative Euro-MP since 1979 and former chairman of the electronics company founded by his grandfather, has died, aged 58. He died at his home in Ellisfield, Hampshire, after a lengthy battla against cancer.

A member of the Ferranti board since 1957, he served as non-executive chairman of the group from 1982 until earlier this year when it merged with International Signal & Control, a US defence contractor. At the time of his death he was a non-executive director and honorary president of Ferranti International.

Mr de Ferranti, educated at Eton and Trinity College, Cambridge, was MEP for Hampshire Central. He was Conservative MP for Morecambe and Lonsdale from 1958 to 1964, during which time he became parliamentary secretary to the Minister of Aviation.

Mr Christopher Prout, chairman of the European Democratic Group of Conservative parties, said last night: "His personal magic and professional vision earned him the admiration of all his colleagues in the European Parliament, irrespective of their nationality or political persuasion."

At the start of a colourful career, the 23-year-old Mr de Ferranti was given a four-month suspended jail sentence in Venice, Italy, for knocking a policeman's helmet off for a bet while on holiday with friends.

Twice married, Mr de Ferranti had three sons and one daughter. He is survived by his wife, Simone.

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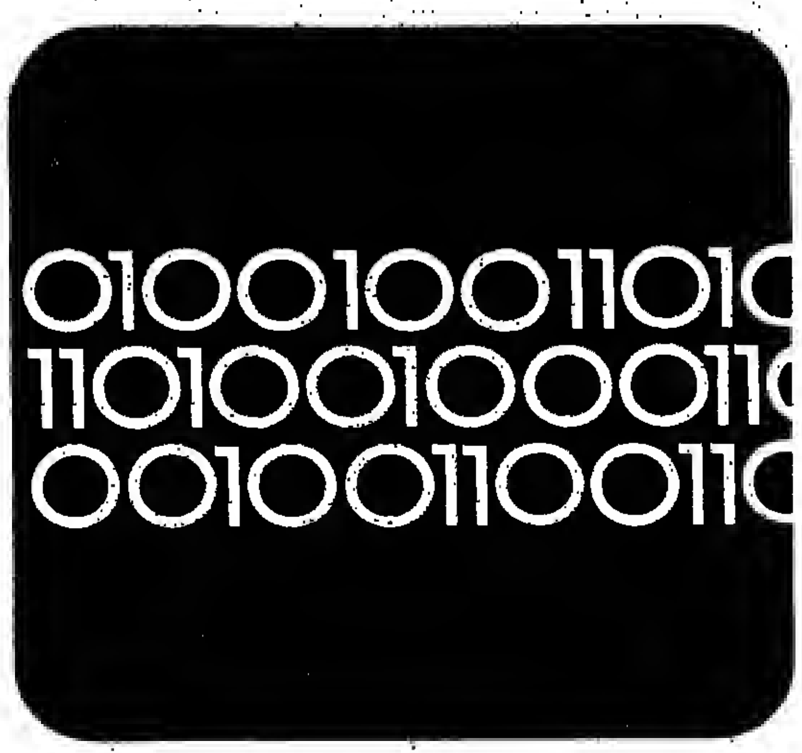
Add to that, strategic industry alliances with key international information management and technology companies. The result is a company that speaks the language of the future. With a strong clear voice.



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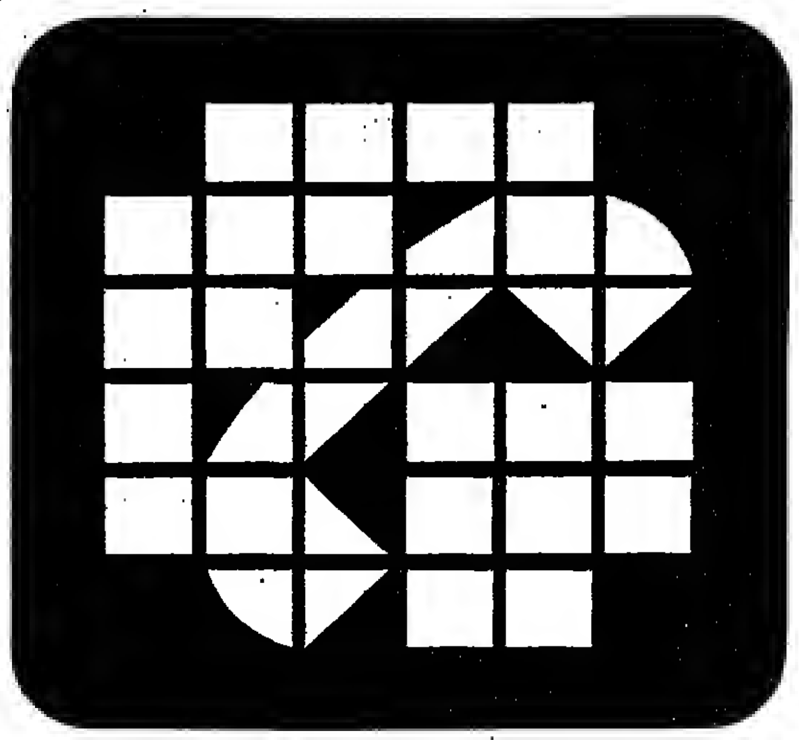

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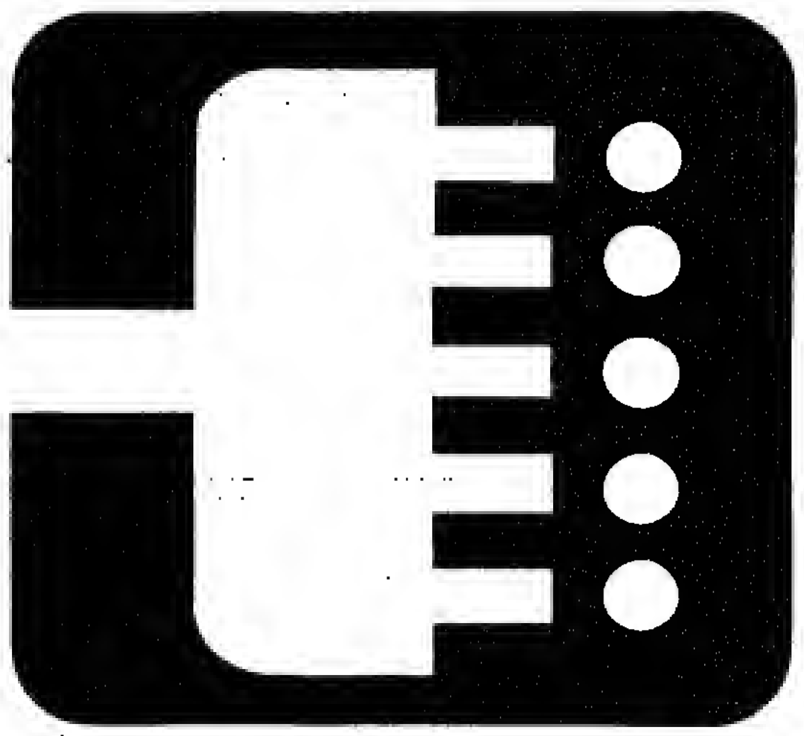
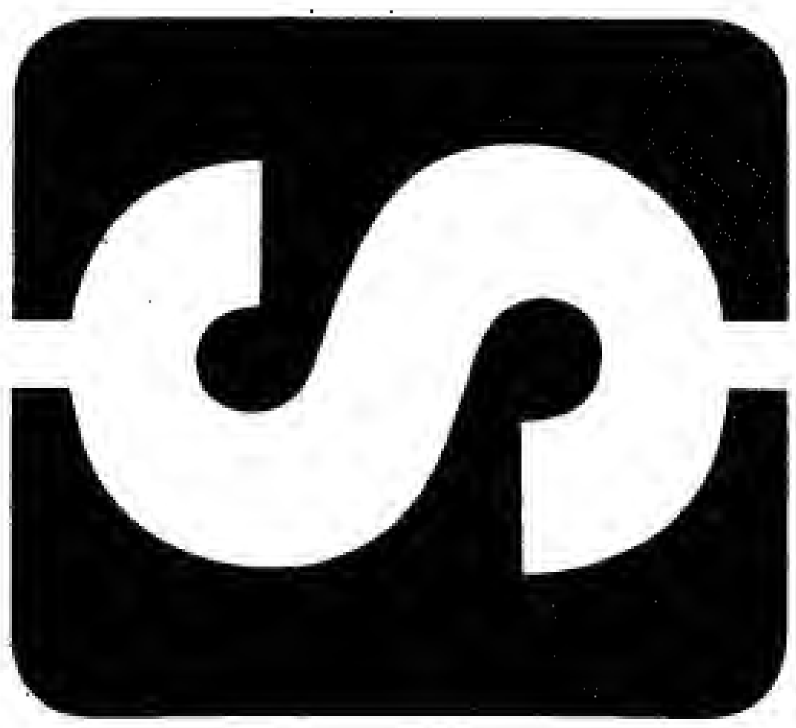


SYSTEMS INTEGRATION

CELLULAR COMMUNICATIONS

COMPUTER MAINTENANCE



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APPOINTMENTS

Reorganisation at Peachey

Wereldhave, the Dutch property group, has taken over the management of PEACHEY PROPERTY, control of which it won last month in a contested £282m takeover bid, *writes Paul Cheeseright*.

At a board meeting Sir Charles Ball, the chairman, and Mr Douglas Chance, Sir Sidney Eburne, Mr Robert Vigars and Mr Leonard Williams, four non-executive directors, all resigned.

Mr Onno Husken, the Wereldhave chairman, becomes chairman of Peachey as well. He is joined on the board by Mr Gijs Verweij, the managing director of the group and Mr Kevin Grover, a director of Wereldhave UK.

Mr John Brown, who has been managing director Peachey for the past 11 years and who has been largely responsible for the recovery and steady growth of the group after the scandals of the 1970s, leaves Peachey at the end of the month. Mr Verweij will take over his duties.

Despite the bitterness which entered some of the exchanges during the takeover contest, the changeover evidently took place in an atmosphere of amiability. The existing management team under Mr Brown's level is remaining.

Wereldhave has indicated that it will maintain the size of Peachey's property portfolio, but will reshape it, giving extra stress to the already extensive retail element of it.

■ **Mr Willy H. Olsen**, senior vice president, has been appointed managing director, STATOIL UK. He takes up his new position at the beginning of 1989. He has been in charge of the public affairs and information department since 1980. He had previously worked for the labour newspaper, Arbeiderbladet and the Norwegian broadcast news service.

Mr Ole Aga, senior vice president, has been appointed senior vice president, public affairs and information. He is now senior vice president of the exploration division. Mr Aga started working for Statoil in 1977. He will take up his new position on October 1.

Mr Rolf Magne Larsen, vice president, exploration, will take over Mr Aga's position as senior vice president of the exploration division.

Mr Peter J. Tronslin, managing director Statoil UK, will transfer to the natural gas division and be in charge of negotiations with the Continent and the UK.

■ PERICOM, the computer graphics and maintenance group, has appointed **Mr Graeme Presswell** as group financial director. He joins from Peat Marwick where he was deputy department manager.

■ SPRECKLEY VILLIERS HUNT AND CO, Lloyd's managing agents, has appointed **Mr Christopher J.P. Willis** as financial director.

■ **Mr Tony Rising**, managing director of LAW DATA SYSTEMS, has been elected chairman.

■ MAI BASIC FOUR has appointed **Mr Roger Wakefield** as its UK managing director and general manager. He was managing director of the company's TekServ subsidiary.

■ ROYAL LIFE INTERNATIONAL has appointed **Mr Brian Walker** as assistant general manager. He is product strategist in the corporate marketing department of Royal Life Holdings.

■ **Mr Ron Carlier** has been made a director of R.K. CARVILL & CO.

■ HAYS BUSINESS SERVICES, the business data management service company, has appointed **Mr Jim Baker** as its London operations director. He was general manager-London operations.

■ TOUCHE ROSS & CO has appointed **Mr Tom Sooke** and **Mr Peter David** as partners of its corporate finance group.

■ On October 1 **Mr John Walker** becomes chief executive of the speciality products division of YORKSHIRE CHEMICALS. On the same date **Mr Derek Byrne** is appointed chief executive of the colours division. **Mr Paul Gemski**, the divisional financial controller in Leeds, is made deputy chief executive of the colours division.

■ IMPERIAL TRIDENT LIFE has appointed **Mr Derek Hoye** to the new position of deputy managing director consultant salesforce. He joins from Abbey Life where he was executive director in charge of new branch development.

■ **Mr Christopher Ashton-Jones**, formerly with Dewe Rogerson, is joining BRUNSWICK PUBLIC RELATIONS as a director.

■ **Mr Mike Collett** has joined WESTERN PROVIDENT ASSOCIATION as financial director. He was deputy company secretary at Essex Water Company.

■ **Mr Colin Ingram** is appointed to the board of BCE HOLDINGS as finance director from October 3. He was formerly finance director at Saatchi & Saatchi Advertising.

■ *Mr John Walker* has been made group finance director of IRISH WIRE PRODUCTS, the household products group. He was finance and administration director of Reckitt Cleaning Services, a subsidiary of Reckitt and Coleman.

■ DEACON HOARE & CO, the Bristol-based bankers, has appointed **Mr Peter Tucker** and **Mr Ian F. Scott** as directors. On October 1 Mr Scott, who was previously with the First National Bank of Chicago, will assume executive responsibility for banking activities.

■ **Mr John Norris** has been appointed to the boards of TAYLOR WOODROW DEVELOPMENTS and TAYLOR WOODROW CAPITAL DEVELOPMENTS, both wholly-owned subsidiaries of Taylor Woodrow Property Company.

■ **Ms Christine Large**, chairman and managing director of Epigram, has been made a director of WYVERN TELEVISION HOLDINGS and WYVERN TELEVISION. **Mr Robin Edwards**, chairman and managing director of Wyvern Television, has become a director of Epigram Associates.

■ **Mr Peter Paice** has been appointed managing director of RELIANCE SECURITY GROUP, the security services company. He joins from Bricom where he was chief executive of Spinneys, the catering and contracting group.

■ **Mr Nicholas Wells** is joining BARCLAYS de ZOETE WEDD's merchant banking corporate finance department at the end of November as a director and a deputy head of that department. He is a senior corporate finance director with County NatWest.

■ TSB ENGLAND & WALES has appointed **Mr Gordon Aspey** as regional general manager responsible for the bank's operations in the East Midlands and East Anglia. He was principal of the TSB England & Wales staff training college at Telford. **Mr Elliot Harkness**, who played a major part in establishing TSB Private Bank International in Luxembourg, becomes director of international development.

Mr Duncan Lawton, an executive director, has been appointed deputy chairman of BRITISH VITA.

■ **Mr Patrick Ryan** has been appointed a director at KEARSLEY (INSURANCE BROKERS). He was the new business director of Sedgwick UK Group's eastern region.

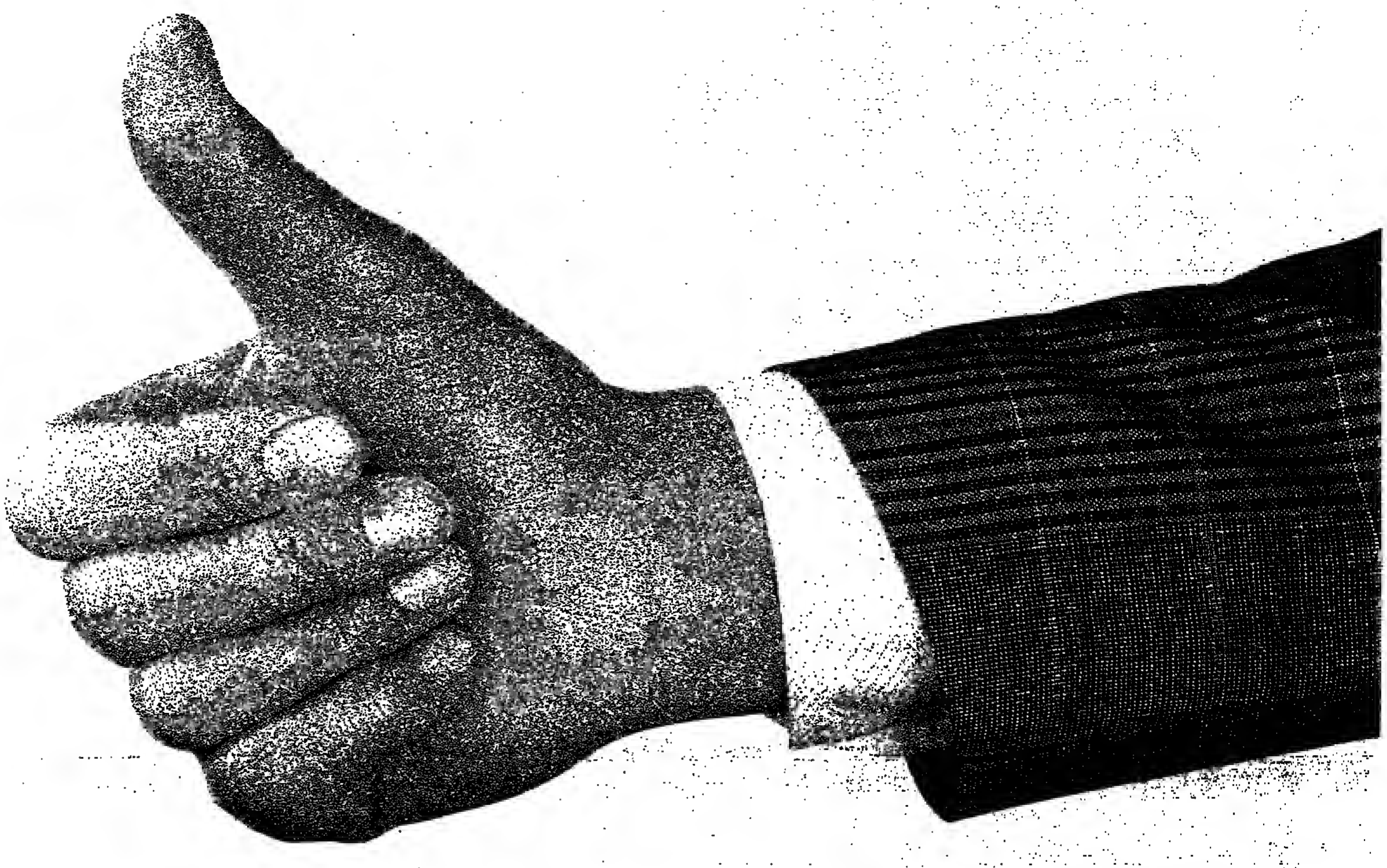
■ *Mr Raymond C. Petersen* has become general manager of COMMONWEALTH BANK OF AUSTRALIA's London branch. He succeeds **Mr John A. Wisehart**, who has returned to Australia.

■ WESTERN TRUST & SAVINGS, the banking subsidiary of the Manufacturers Life Insurance Group (ManuLife), has appointed **Mr Robert Carlton-Porter** and **Mr Alex D. Mair** as non-executive directors. Mr Carlton-Porter is finance director of English China Clays. Mr Mair was chief manager of the corporate finance at TSB Group.

■ PIERI (UNDERWRITING AGENCIES) has formed a new managing agency, Pieri and Holland (Underwriting Agency), to manage non-marine Syndicate 1142. The board is **Mr E. Pieri**, chairman, **Mr P.E. Holland**, managing director, **Mr R.I. Holman-Baird**, **Mr D.S. Keanie**, **Mr B.Thompson** and **Mr D.N. Valente** (non-executive). *Mr Holland will be the* underwriter with **Mr B.N. Boughton** as deputy underwriter.

طبقا من الأصل

SIEMENS



It's official: Once again Siemens ranks as Europe's No.1 in Computers

Every year the international computer magazine "Datamation" publishes a table of the world's leading Information Systems companies.
For the fourth year in succession, Siemens is No. 1 in the European league and, as such, the top European computer company in the world market.

This success can be attributed to four major product groups:

- the BS2000 computers, which run under a single operating system – from small departmental computers right through to the largest mainframes.
- the SINIX® multi-user system, Europe's best-selling UNIX® computers.
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- the digital office communications systems, which are at home throughout the world.

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Moreover, Siemens itself manufactures the key components, being the sole European source, of the Megabit chip – a chip for both the world electronics market and Siamens computers.

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	Company	World IS Rev ($mil)
1	Siemens AG	$5,703.0
2	Ing. C. Olivetti & Co. SpA	4,637.2
3	Groupe Bull	3,007.5
4	Nixdorf Computer AG	2,821.5
5	NV Philips Gloeilampenfabrieken	2,601.6
6	STC plc	2,123.9
7	Alcatel NV	2,052.1
8	LM Ericsson	1,511.6
9	Inspectorate Intl. Ltd.	1,225.0
10	Memorex Intl.	1,041.1

Source: Datamation, August 1988

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FINANCIAL TIMES SURVEY

Exhibition Industry

British companies seeking to get their corporate message across are turning more and more to exhibitions. And new facilities should help the UK attract large international shows and overseas visitors, writes **David Churchill,** introducing this three-page survey

Less hype, more data

THE UK exhibition industry is enjoying one of its best-ever years, with demand for stand space at some venues outstripping supply at certain times. What was once seen as the Cinderella of marketing support services has blossomed out in the late 1980s as a key vehicle for companies seeking to get their corporate message across to both trade customers and the public.

Estimates suggest that some 10m people visited a UK exhibition last year, spending at least £500m. Exact figures for the industry are hard to come by, not least because of the traditional secrecy of what is still very much an emerging sector but also because of the highly fragmented nature of the exhibition industry.

It is for this reason that the newly-formed Exhibition Industry Federation's first priority has been to commission extensive research to establish the industry's credibility.

Now that exhibitions are being taken more seriously by companies as a communications vehicle, there has been a consequent increase in demand for the type of data available in other media. Exhibitions in the past have relied too much on hype and not enough on objective facts about their value to participants.

structured approach to the business was behind the setting up of the Exhibition Industry Federation earlier this year. The three main sectors of the exhibition business — venue owners, contractors and organisers — all saw the need to pull in the same direction rather than each pursuing their separate interests.

Like any newly-formed trade body in a fledgling industry, the federation will have its work cut out in trying to bring together all the component parts of the business to improve standards.

Not surprisingly, Mr Jeremy Sale, newly-appointed director of the federation, is optimistic about the potential for the exhibition industry. "The business has been very successful in the past to reach its present stage of development," he says. "But what is needed now is the infrastructure to take us into the 1990s."

Part of the problem with the sector in the past, he feels, has been the "entrepreneurial nature of the industry which has led to everybody pulling in different directions."

The federation has three main aims:

- to publicise the effectiveness of the exhibition medium;
- to develop export business by attracting overseas exhibitors and buyers to leading events;
- to encourage new exhibitions — especially among groups such as government and public bodies — as well as the development of new techniques.

Such objectives are sufficiently vague to allow the federation to develop at its own pace and it may sharpen up its long-term aims with the benefit of experience.

One key objective for the industry will be steps aimed at improving the facilities and competitiveness of the UK sector in comparison with the much larger French and West German exhibition industries.

The most recent comparative analysis of European exhibition industries dates back to 1984 when a University of Surrey survey found that while the UK held more exhibitions than either France or Germany, these tended to be moch smaller than thosa of their European counterparts.

A typical UK exhibition at that time was only some 6,000 square metres in size, compared with 26,000 sqnare metres in West Germany and 16,000 square metres in France. Estimates also suggest that there are some 10 times as many visitors to exhibitions in West Germany as attend UK events.

The key reason for the greater strength of the continental exhibition industries has been the size of their facilities and their ability to attract major international shows.

Since that report was published, however, the UK industry has closed the gap with the Continent through the expansion of major exhibition facilities such as at London's Earls Court and Olympia, Birmingham's National Exhibition Centre and at G-Mex in Manchester.

Other developments are on the way. Next year, for example, sees the opening of the £20m London Arena complex in Docklands. Recently, moreover, two long-established venues have been given a new lease of life for exhibitions — the Alexandra Palace in North London, refurbished at a cost of £35m, and the newly-named Business Design Centre in Islington, formerly the Royal Agricultural Hall.

Such new facilities should help the UK industry attract large international exhibitions and, more importantly, the exhibition visitor from overseas. Figures from the British Tourist Authority put the number of overseas visitors to exhibitions at abont 300,000 last year. But more significant is the fact that they spent at least £75m in the UK.

Other figures show that the overseas visitor will spend some £346 per visit — inclnding hotels and entertainment — while the domestic exhibition visitor spends only £148.

The investment in new exhibition facilities reflects the growth of the industry — it has virtually donbled in size — during the 1980s. The main reason for the sector's popnlarity has been the strength of the UK economy.

Increased business activity, moreover, has gone hand in hand with an added awareness from companies in the 1980s of the importance of good communications in the marketing mix. Mr Stewart Christie, marketing manager of GKN Chep — the national pallet and container pool operation — believes that exhibitions and other trade events are very important "in creating market awareness of our services across a range of sectors."

He says that exhibitions "provide an opportunity to build a better understanding with our customers and to promote a greater appreciation of our business of pallet pooling."

Yet the key question remains just how effective exhibitions are.

A recent survey of 105 companies, carried out by Cahners Exhibitions and Exhibition Support Services, found that while 41 per cent of those polled had a favourable opinion of exhibitions, some 28 per cent held a poor view of their value. A further 17 per cent saw exhibitions as of varied success, 9 per cent said they were fairly snccessful, while the remaining 5 per cent said they were improving.

Common complaints from exhibitors fall into three main categories:

- Exhibitions are hyped up too much by their organisers. "More accurate information is wanted rather than information aimed at trying to sell the show," one respondent to the ESS survey commented.
- The wroog people are targeted to visit the exhibition, so giving poor business "leads" to exhibitors.
- Inadequate planning and help from organisers mean that less is achieved from the exhibition.

Other criticisms included the problem at some exhibitions of exhibitors being approached to buy other services. "It's pretty annoying to have people trying to sell you things when you're tbere to reacb the people you've paid to contact," said one exhibitor.

Another problem appears to be too many exhibitions fighting to attract the same type of visitors. "I would rather have fewer exhibitions, better organised and more comprehensive than so many which appear to be aiming at a similar target audience in a single year."

In a bid to stimulate discussion on the issue, the Exhibition Industry Federation is sponsoring a seminar on November 21 at the Olympia conference centre in London to examine the value of exhibitions. This will be based on 12 case studies of companies which regularly participate in UK exhibitions.

Tbe federation's researcb programme to provide more accurate information on the industry also encompasses a survey of more than 35 trade and public exhibitions. Dr Greg Ricbards, senior lecturer in tourism at the North London Polytechnic, is also carrying out a survey of visitors to provide an analysis of spending patterns

The Incorporated Society of British Advertisers is also planning to review the exhibitions industry to provide detailed information on rental and construction costs and the origins of exhibitors.

A clearing-bouse for certified data on exhibitions is also being set np by the federation

The prospect of the boom in demand for their facilities easing off is clearly the key worry for the exhibition indnstry. Any move into recession by the UK or world economy would put the effectiveness of exhibitions under even greater scrutiny.

The industry, however, believes that by improving the data available on exhibitions it can prove its case to play an important part in the marketing mix if recession comes.

A show house at the Daily Mail Ideal Home Exhibition at Earls Court in March this year

The UK's key organisers and their marketing methods

'Now people realise their value'

THE FACE of the exhibitions industry has undergone a rapid transformation over the last three years.

The quickest route to growth – by acquisition, has been taken by the larger companies – many of whom are relatively new themselves. The Emap Exhibitions Group, which started five years ago, now has four individual operating subsidiaries and runs 43 shows, while Blenheim Exhibitions Group, with three operating subsidiaries, runs some 80 events, both exhibitions and conferences, in the UK.

The industry's acquisitive aggressors Emap, Reed and Blenheim, were recently joined by Robert Maxwell's Pergamon Press which has bought AGB Research, the 10th largest organiser, with a 2.5 per cent market share and Evans Steadman, the fifth largest with 4.3 per cent.

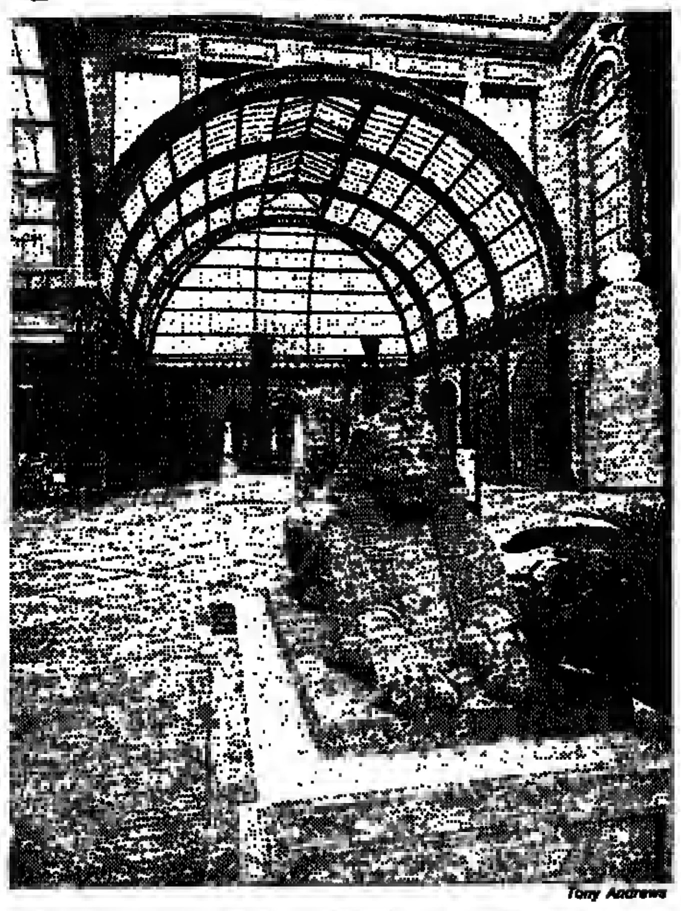
Pergamon's acquisition serves to strengthen the notion that publishing and exhibitions make a strong alliance. Reed and Emap, the two market leaders, are both publishers.

While it is not so easy to achieve a big success with consumer shows, trade shows – particularly those based around a niche market with its own magazine – are relatively easy to promote because the visitors are the magazine's readers. Direct mailing to the subscription list, plus advertising and editorial in the owned magazines ensure that the organisers are able to generate a large number of visitors even to the smaller shows.

According to Ms Sarah Biggs, director of the Association of Conference Organisers "every organiser of the 600 mainstream annual exhibitions now in the UK is trying to come up with something original to raise his or her show's profiles and increase attendance – anything from balls and banquets to conferences.

"Emap and Reed have given a whole new awareness to the industry," she adds. "Exhibitions have taken on an importance in the UK that they have always had in the US and Europe. But until recently, they were not well received here. Now people are realising how valuable they can be."

In part, this is due to the increasing quality and number of exhibition venues, like Birmingham's NEC, Manchester's G-Mex; the overhaul of Olympia and the recently rebuilt Business Design Centre in London.



Tony Andrews

The Palm Court of Alexandra Palace, North London

The organisers themselves maintain that exhibitions are becoming more successful because customers are realising how time-saving they can be when they visit venues and can see the full range of products and evaluate them. On neutral ground, the seller is given an opportunity to present his wares in the best possible light, and not only to existing customers but to additional ones found by the organiser and other exhibitors.

But if the newer groups are profit-orientated, looking for returns on their expensive acquisitions, the industry's association has expressed concern for the future of the industry itself.

Not all organisers have gone on the acquisition trail. Some prefer to build up already successful shows and offer increased services to their exhibitors. "We try to train our exhibitors to get the maximum benefit from our exhibitions, as selling at exhibitions is quite different," says Mr Sandy Angus, managing director of Andry Montgomery UK Exhibitions, which runs 30 shows annually, and is the only major independent privately owned organiser.

The company organises seminars and produces videos. "Exhibitors are in an open environment where they don't know who they may be talking to. The balance is in favour of the exhibitor but only if he can take advantage of it."

Mr Angus maintains that most of his company's exhibitors have been to one of the seminars. "It's a self-interested activity on our part, if they don't do well they won't return," he says.

But he believes that the current wave of acquisitions is leading the industry into a position where it is motivated purely by the bottom line. "That way we lose the opportunities of helping the industries with which we are associated," he says. "Exhibitions ought to be putting something back into the industries they are taking from."

Mr Lawrie Lewis, chairman of fast-growing Blenheim, has devised a watchdog committee scheme to ensure that each event his company runs maintains high standards. "They set the events's profile for us," he says. Although On-line, the conference side of his company, has some specialist magazines, Mr Lewis maintains his company is unique among exhibition companies in not exploiting its magazine links to promote its exhibitions.

The largest organiser is Reed Exhibition Companies. With an annual turnover of £30m, it runs 65 shows in the UK; Reed also claims to be largest organiser worldwide, putting on 150 shows overseas. Two years ago it gained this status by bringing together three companies which are now operating divisions – Cahners Exhibitions, Industrial & Trade Fairs and Trident Exhibitions.

The umbrella exhibitions group, although it is part of IPC, runs autonomously and works with many publishers from outside. "There has been a tremendous growth in acquisitions generally. Over the last three years, the larger organisers were purchasing the smaller ones. Indeed, it used to be true that you could go around buying them, but now there are very few left," says Mr Iain Campbell, marketing services director. "Now it is much cheaper to buy events rather than whole companies."

So, while Reed is still prepared to acquire in order to grow, the company has opted for an aggressive policy of launching new shows. "We run a large research and development department searching for markets we are not in," says Mr Campbell. And he cites another trend: "There has been a tremendous growth in spin-offs."

For Reed, this has meant looking for opportunities within markets where it already runs successful shows. The International Watch, Jewellery and Silver Trades Fair, an annual event in the autumn, is to be complemented by the London Jewellery Fair early next year. "The market needed a spring buying event," he says.

Another Reed show, Hotel Olympia, which is a bi-annual European catering event, will now alternate with Hospitality, a new show with a similar profile. As Reed owns five catering magazines, it will fit the Reed exhibitions roster comfortably. "We have the strength of being able to offer the support of closely allied journals to sponsor events or reach buyers through editorial, advertising and direct mail," says Mr Campbell. His company is the largest trade publisher, with some 80 titles.

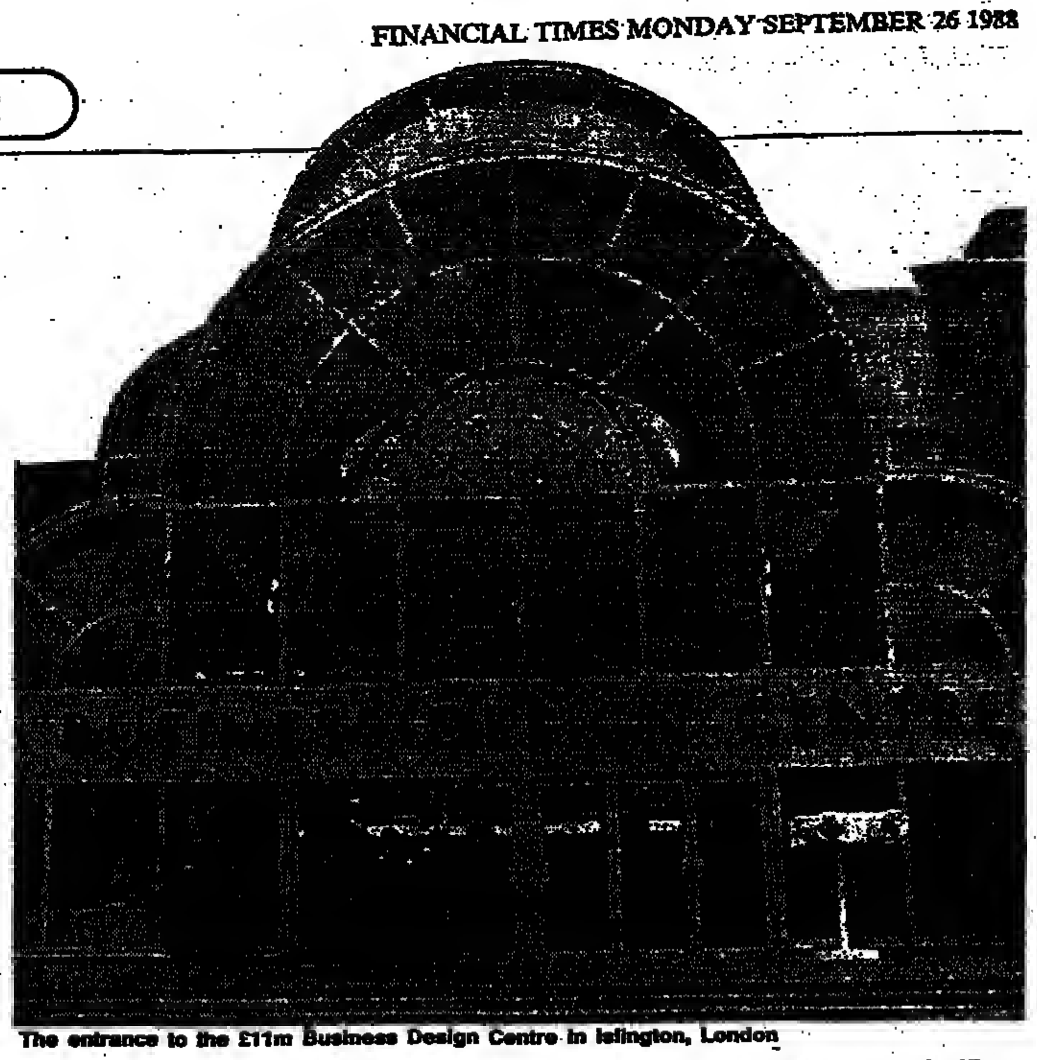
Companies like Emap and Morgan Grampian benefit from publishing magazines and running matching shows, and so will AGB from its absorption into Pergamon.

The Emap Exhibitions Group, in its fifth year, is split into four divisions. It now takes second place to Reed, and like that company allies shows to magazines. Emap is the company credited with injecting aggression into the exhibition business, when there was potential to expand. In 1984 it acquired Maclaren mainly for its magazines and then paid £16m for Trade Promotion Services.

But not all the company's shows have been bought in. It has launched 13 shows of its own, and injected capital into the ones it has acquired.

By next year Philbeach Events, a £13m turnover company which has an 11.4 per cent market share, will be running 23 events, five of which are new and three of which are linked to conferences. The company was established 11 years ago as part of the P&O Group, initially to provide new business for Earl's Court & Olympia. "That's been achieved, there's a surfeit of demand in London today," claims Mr Peter Thomson, managing director.

Philbeach is also one of the few organisers which, apart from trade fairs, runs public seated events including the Royal Tournament and public shows such as the Antiques Fair and Motorcycle Show. The company owns most of its own events, and will go into joint venture with associations that have identified a market but lack the expertise to run an event themselves.



The entrance to the £11m Business Design Centre in Islington, London

The company distances itself from its competitors. "Unlike the others we do not buy, we create. We take a longer term view," argues Mr Thomson. "We sustain the start-up costs and the losses which establishing an event can bring." He believes that "the vast sums being paid for exhibitions are offputting; having paid that kind of money, you have no choice but to expect a very substantial return from them."

Although Philbeach has no publishing outlets, this has not prevented the company from developing shows across sectors. "We are very strong in home furnishings, furniture and fabrics. We run the UK's largest furniture exhibition - Home Interiors, and apparel, fabrics and fashion shows. We bridge industries through a natural involvement in one, which means that you can get into the next."

From Home Interiors, which shows household textiles, Philbeach decided that the fabric producers and the manufacturers of the technology itself would be a logical extension, so it set up the Textile & Technology Exhibition. "Either there's an opportunity to regionalise a show, or to move further back in the manufacturing process," says Mr Thomson.

He also cites the niche markets that his company has moved into – the British Designer Show, a high fashion show and the London Pret, a retail fashion show are examples. "It's the same industry but at a different price level.

"We are competing against all other forms of media," adds Mr Thomson. "Exhibitions have their attractions, but there are objections to them too which we have to overcome. On a stand products are three-dimensional, but the exhibitor may have to be there for two weeks."

Like other organisers, he believes it is important today to provide better research to exhibitors – including a breakdown of visitors.

"One of the major drawbacks about the exhibition industry is the lack of data quantifying the number of people who visit. We don't know yet how much an average person spends, or the invisible earnings he may create while he is here," says Ms Biggs. "It is all completely unknown." In the US, research on every aspect of exhibiting is provided in full.

Reed is one company that monitors the competition, as well as its own shows. "It's a small industry, so we research it constantly and monitor all the shows of any significant size," admits Mr Campbell. "We analyse them so that we know where we are with the competition."

And a new professionalism is dawning from within the exhibitions industry. Recently Reed Exhibitions commissioned the Audit Bureau of Circulation to audit 42 of the group's UK based trade exhibitions. Mr Mike Rusbridge, chief executive, comments: "The introduction of ABC will bring the same level of data to potential exhibitors as is available from publishers to advertisers."

For Blenheim, research is a high priority – a 15-strong research department investigates potential visitors and during each exhibition it conducts a survey to establish the strengths and weaknesses of the event. A written report is supplied to the event's watchdog committee. "The key to success is the quality of the products that exhibitors have on offer, they've got to be targeted to the right audience," says Mr Lewis.

"And if you can bring the two together – you have a success on your hands. It takes between £25,000 and £50,000 to get that attendance. And we'll spend that."

Joan Plachta
PR Week

An investigation into possible 'uncompetitive practices'

Contractors 'frozen out'

THE OFFICE of Fair Trading is questioning exhibition hall owners about possible "uncompetitive practices." The questions will relate to the contracts between hall owners and suppliers of electrical, stand fitting and other services bought by organisers, and ultimately by exhibitors.

"Contractors are frozen out of contracts. But the argument is who gets the profits, not whether it's fair to the exhibitor," says Mr Peter Cotterell, secretary general of the newly-formed National Exhibitors Association. The investigation will establish whether there are uncompetitive practices or not.

Mr Cotterell formed the association last month. "No-one has gone into bat for the exhibitors; individual exhibitors cannot change the things that are wrong in the industry," he says. One objective of the association is to air exhibitors' grievances. Although the exhibition industry is enjoying an upturn, the contractors face a number of problems.

Like the exhibition organisers, which are currently growing fast by acquisition, the contracting industry has undergone considerable changes. United Exhibition Services, a company set up in 1976, last year became part of Giltspur, which among its specialities supplies around 80 per cent of the floorcovering market in the exhibition world.

Mr Arthur Francis, managing director of Giltspur/United Exhibition Services, believes that the acquisitions by organisers, while they may lose contractors one exhibition workload, can often work the other way round, with two contractors working alongside each other.

Another acquisition in the contracting field was made by the Melville Group. It acquired Beck & Pollitzer which now forms part of Melville's holding company, Carlton Building Services. The group comprises Carlton Waller, Carlton Beck (a division specialising in custom building and gallery work), Beck Exhibitions Services and the Midlands based company, Clements & Street.

According to Mr Peter Cole, editor of the industry newspaper, Exhibitions Bulletin, the size of the major contractors could make them uncompetitive. He believes that there is a danger that the smaller contractors may come in and undercut them.

But Mr David Berrie, managing director of Beck Exhibition Services and soon to be president of the British Exhibition Contractors Association (Beca), does not see it that way. He comments: "As the organisers get bigger they will be able to provide more services, which enables us to enhance our turnover and get more work. And, while the exhibition organisers provide yet more shows, so the cyclical nature of exhibitions industry is flattening out, keeping contractors permanently busy.

The National Exhibition Centre expanded by 10,000 sq metres for the Motor Show in 1980

For Ms Joan Turner, director of Beca, the major issue facing the contracting industry is externally focused towards Europe and 1992. Each member state operates different policies of wage negotiation and VAT, on which Ms Turner is collating information.

"We can see the changes coming, so the more we find out now, the better." The first issue to be addressed at international level is that each country has different safety regulations. At Brand 88, held in March, the exhibition industry came together to discuss safety. A congress of 400 participants took part in workshops, setting up committees comprising the fire brigade, stand builders and stand organisers to unify safety and security regulations throughout Europe.

Currently, categories for materials differ in each country. "We want to make them the same everywhere, so that contractors can move about freely. If wa could achieve that it would be a great step ahead," says Ms Hilda Steppe, general secretary of the International Federation of Exhibition Organisers (Ifex).

Until a common code of practice is ratified, contractors will not be able to move freely between individual member states. As rates of work done vary between member states, Ms Turner believes: "We have got to be able to compete on finished products and costs. Competition will get fiercer and we will see contractors coming over from the Continent."

But it works the other way. UK contractors will be able to go abroad and major companies will buy concerns in Europe. Ms Turner expects that European exhibition owners will set up shows in the UK – another way for contractors to get more business.

"The demand for exhibitions seems to equate to the amount of space available," says Mr Nick Matthews, director of Cockade, the exhibition design and building subsidiary of Michael Peters Group. "Large, well-established exhibitions are growing, but many more are fragmenting and breaking down. Visitors want to see more focused exhibitions and the organisers are holding more to increase profit."

Even new hotels are being built with exhibition space. At the same time, while the pricing, design and portability of stands improves, particularly at the cheaper end of the market, so more people are inclined to exhibit – both in the UK and abroad.

One lucrative and expanding area for all contractors is that major companies are now setting up their own shows as single vendor events. Companies like ICL, Hewlett Packard, IBM and DEC have all opted for this route, supplementing the stands they take at mainstream exhibitions.

Hewlett Packard runs one show, Productivity, that simply tours America full time, while DEC has a similar operation in Europe. "We increasingly get involved in single vendor events," confirms Mr Matthews. "Events like these ensure that any theme in advertising and marketing continues through in a 3D way."

Although the industry is nowhere near as cyclical as it once was, companies like Cockade constantly search for new business areas. "Where there is unused capacity, it is sensible to look at other areas, say permanent interior displays, like foyer or reception areas or museum interiors. We have to have other options to keep things on an even keel."

Joan Plachta

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Selected London and (below) provincial venues

Verdict on 1988 — good but not great

LAST YEAR was terrific. This year has not been quite as big a leap forward.

That is the view of Mr David Fasken, managing director of Earls Court-Olympia, who remains confident about prospects for the exhibition industry. After all, he argues, even if there were a downturn, "I don't think we'd feel the breeze so much as the regional market."

A similar note of cautious optimism is struck by Mr Lon Bizat, general manager of Alexandra Park and also chairman of the British Exhibition Venues Association. Though he worries a little that the industry may be suffering from a proliferation of exhibitions, he finds that the buoyancy seems to be continuing.

This year Earls Court-Olympia will be staging 69 trade exhibitions, 14 public shows and six which are mixed (there are also about 70 conferences).

Biggest of these shows is the Daily Mail Ideal Home, which accounts for about 800,000 of the 3.5m annual visitors. The Motor Fair attracts about 350,000. The larger trade fairs draw in up to 50,000 but the average is 15-20,000.

The growth area, however, seems to be the small to medium trade show, particularly those specialising in food, electronics and other service industries. Heavy engineering, on the other hand, is static.

Mr Fasken says that the very large public shows, however, are climbing only slowly and he wonders whether some of the regulars might have "bottomed out." Small to medium-sized is where the growth is, agrees Mr Bizat, who mentions specialised computer exhibitions in particular.

He accepts that over the past year attendances at individual shows have not grown so much as stabilised. But, he argues, the quality of people attending trade shows has improved. More of them can sign company cheques.

Mr Colin Wigan, manager of the Barbican Centre, and Mr Colin Dennard, general sales manager of the Kensington Exhibition Centre, are at one in seeing their venues as "nursery grounds" for trade and professional exhibitions which may eventually grow so big they have to pass on to larger sites.

The seven-year-old Barbican Centre is, understandably, City-oriented, but has recently become more involved in sport.

The Kensington Centre increased its space from 4,395 sq metres by 50 per cent at the end of August. Its new Chelsea Suite used to be leased to the British Carpet Trade Design Centre and some £350,000 has been spent on renovations.

Mr Dennard argues that trade visitors, especially businessmen, prefer venues readily accessible to central London. He is philosophic about losing an exhibition like Housewares, which has grown from 1,000 to 6,000 sq metres, to Olympia, seeing it more as a tribute to the industry as a whole.

A less sanguine view of lost opportunities is taken by Mr Fasken who admits that his venues' relative lack of room may have restricted growth. Earls Court 2, due to open in February 1990, will boost the overall space available by 20 per cent. Moreover, the building will be flexible, allowing for two exhibitions of varying sizes.

Earls Court and Olympia is, of course, a wholly-owned subsidiary of P&O, whose board presumably approved the expenditure involved. Nevertheless, Mr Fasken regrets that help is no longer available from any government agency for building or refurbishing. He recalls that the Greater London Council, when run by Sir Horace Cutler, did provide a loan and argues that his exhibition centre is placed at a disadvantage to those in Frankfurt, Milan and other places where soft loans and subsidies are on offer.

He points out, also, that Earls Court is the Royal Borough of Kensington's top ratepayer, while Olympia heads the league in Hammersmith.

Like the NEC and G-Mex, the top London venues are branching out into entertainment. Verdi's Aida attracted 100,000 visitors (at £20 or £25 each) to West London for seven successive nights in the summer and promoter Harvey Goldsmith plans to give another opera similarly spectacular treatment. It is possible that the Moscow Ballet and the Kirov Ballet (both rather incongruously brought to the Business Design Centre in Islington this summer) will return to the UK at Earls Court. One firm booking is Billy Graham, the evangelist: an exhibition of a different kind.

And, having just staged a John Lennon exhibition, the two-year-old Business Design Centre might perhaps consider whether its name is *entirely* appropriate.

Unlike most site owners, Earls Court-Olympia is also a significant exhibition organiser, through its subsidiary Philbeach Events. Not only MotorFair but also the London Furniture Show and the Fine Art and Antiques Fair are thus staged by the site owner, which also has a contracting subsidiary, Ecando Systems, to erect the stands. Philbeach handlea 22 exhibitions — about 25 per cent of those at the venues. By comparison, the Business Design Centre organises about four exhibitions of the 45 or so it stages a year.

The distinguishing feature of the Islington centre is probably its community of more than 100 trade showrooms, offering a range of attractively designed goods for businesses — from bathroom furniture to postal franking machines.

Mr Bizat is the man who closed the Festival of London in July. He is unrepentant, arguing that the organisers failed to identify their market hat their publicity was too weak. Though recognising that there is a perceived problem, he strongly denies that Alexandra Palace was the wrong site, pointing out that it is well served by train and bus. "If the product is right, Alexandra Palace is better connected to central London than Wembley," he says.

He adds that after the festival closed, the Moscow State Circus continued to play there to full houses for four days. And Capitol Music Week attracted 45,000 people to the North London venue while an exhibition for the Disabled has grown from every other year to twice a year.

With an average occupancy rate of nearly 80 per cent — and one can hardly expect to go much higher than that because of the time needed to move stands and clear halls between exhibitions — you might think that Earls Court-Olympia (and its managing director) would be on top of the world. But Mr Fasken still feels that something is missing.

"Exhibitions are one of the very best ways of promotion," he claims. "London has failed to appreciate the value of exhibitions in helping the economy."

Gabriel Bowman

Royal Britain, the UK's first permanent exhibition on royalty, opened its doors a couple of months ago at the Barbican in London. Unicorn Heritage, which is backing the project, raised £5m last year through the Business Expansion Scheme to cover design, construction, promotion and administrative costs. The commercial exhibition design company Imagination takes the credit for the audio-visual effects and three-dimensional design. There are 25 zones, covering a time-span from 600 BC to the present day. In the press corridor, for instance, visitors may experience what it is like to be a member of today's royal family facing the "paparazzi". There seems no doubt that Queen Victoria (above) would not have been amused.

A long way behind the Germans

BRITAIN PUTS 10 per cent of its advertising spend into exhibitions, while the West Germans put 25 to 30 per cent. "So we've got a long way to go," says Mr Terry Golding, chief executive of the National Exhibition Centre, perhaps seeking to justify the mood of optimism that pervades the industry.

It may also explain why the NEC is aiming to double its space on the outskirts of Birmingham to just over 200,000 sq metres. The first phase of this, an extra 20,000 sq metres, built at a cost of £41m, should be ready next February. It will increase tha space available by 25 per cent, keeping the NEC far ahead in size of Earls Court-Olympia, let alone any provincial site.

The NEC books its shows up to four or five years ahead, though it is not giving too much away to reveal that the Motor Show is firmly committed to it for 1994. Mr Golding'a forward fixture list gains in credibility from his belief that there are few, if any, clouds on the horizon. As the UK acomomy is seen to be doing well, so does the exhibition industry. The only difference is that, were there to be a downturn in the former, he would expect about a two-year lag before the effects were felt on bookings and attendances.

There is a similar story of business growth from the two-year-old G-Mex Centre in Manchester, which reports more bookings than 12 months ago and attendances up at most shows. In particular, its Moneyshow in February was a great success. More sporting events, such as basketball and netball, have made use of the centre, while the Hallé Orchestra gave concerts over *the summer*.

By contrast, the NEC, which says it has recently branched out into industrial theatre, in addition to sporting events such as the Royal International Horse Show, plans to stage concerts with Cliff Richard and Barry Manilow, among others, in the run-up to Christmas.

THE MAIN UK CENTRES

Town	Site	Facilities	Total Space
Belfast	Royal Ulster Agricultural Society	4 halls	9,845 sq metres
Birmingham	National Exhibition Centre	10 halls	105,630 sq metres
Blackpool	Norbreck Castle	2 halls	2,985 sq metres
Blackpool	Winter Gardens	4 halls	6,841 sq metres
Brighton	Metropole Hotel	9 halls	8,125 sq metres
Bristol	Bristol Exhibition Centre	1 hall	3,310 sq metres
Doncaster	Exhibition/Conference Centre	1 hall	4,020 sq metres
Durham	University of Durham	1 hall	1,520 sq metres
Edinburgh	Exhibition and Trade Centre	2 halls	7,500 sq metres
Esher	Sandown Exhibition Centre	2 halls	3,820 sq metres
Glasgow	Scottish Exhibition and Conference Centre	5 halls	18,830 sq metres
Kenilworth	National Agricultural Centre	1 hall	6,000 sq metres
Leeds	Queens Hall	1 hall	4,000 sq metres
London	Alexandra Palace & Park	3 halls	13,070 sq metres
London	Barbican Centre	2 halls	7,953 sq metres
London	Business Design Centre	1 hall	3,745 sq metres
London	Earls Court	5 halls	48,278 sq metres
London	Kensngtn Exhibtn Centre & Rainbow Suite	7 suites	6,595 sq metres
London	Novotel	4 halls	3,830 sq metres
London	Olympia	5 halls/suites	29,618 sq metres
London	Olympia 2	1 hall	10,554 sq metres
London	Wembley Confrnce & Exhibtn Centre	2 halls	8,040 sq metres
Manchester	G-Mex Centre	2 halls	10,300 sq metres
Newcastle	Racecourse & Exhibtn Centre	1 hall	2,389 sq metres
Nottingham	E Midlands Confrnce & Exhibtn Centre	1 hall/4 rooms	800 sq metres
Nottingham	University of Nottingham	2 halls/2 rooms	2,253 sq metres

Source: Exhibition Industry Federation; FT information

Almost all exhibition sites — it is hard to think of any exceptions — put on more trade shows than public exhibitions. At G-Mex indeed, the proportion of public shows, at around a third of its 38 to 43 events, is relatively high. The British Furniture Manufacturers' Exhibition was perhaps its highspot of the year, stretching to 13,000 sq metres, including additional marquees and a nearby hotel. "Dynamism is in the trade shows because of merger activity," according to Mr Alastair Choudhury, G-Mex's assistant manager.

Most of the exhibitions at the Metropole Hotel in Brighton are trade shows. For the most part, the fixture list does not stretch beyond 1990 but then, though the Metropole has nearly as many halls as the NEC, it has less than a tenth of the space. It is booked fairly solid for most of the year, with September, October and November the busiest months on the calendar while July and August are relatively slack.

Unlike some site owners, the Metropole never organises exhibitions: it simply lets its halls. Usually one exhibitor takes them all, but one of the halls has its own entrance and can be let separately.

Because the Metropole is used to stage a number of important biennial events, such as the International Broadcasting Convention, its business cycle is slightly unusual: the odd years may do less well than the even.

A year or so older than G-Mex, the Scottish Exhibition and Conference Centre in Glasgow also plays host to exhibitors from outside and does not originate shows. Its two biggest public exhibitions are the biennial Scottish Motor Show, which attracted 170,000 last November and the Daily Record's annual Modern Homes Exhibition next month, which expects 225-250,000 visitors.

Food and computers — not necessarily together and rarely at the same time — seem to be the Glaswegians' growing preoccupations. The exhibition centre stages the annual Scottish Computer Show and next year will give all its space to a fishing exhibition which began in one hall. There is also a Food Fair organised by Scottish Indnstrial Trade and Exhibitions.

The opening of Inter-Continental Hotels' new Forum Hotel next June is thought likely to have an impact on the Glasgow centre, which is expected to achieve a first, small trading profit.

With around 4m visitors a year — about eight times the total visitors to the Glasgow centre — the NEC has come a long way since it opened on February 1, 1976. In its first year it staged 18 exhibitions; in the coming year there will be 104. Many of these are shows that have ontgrown their previous vennes — hotels, *Olympia, Wembley, etc.*

Some of these shows remain relatively small. "Our business is in all shapes and sizes," explains Mr Golding, who argues that the NEC is the best place to stage the smaller show as well as the blockbuster.

But it is the major UK trade shows, of which he claims the NEC stages 80 per cent, and international shows, such as Ipex, that perhaps concern him most. Increasingly, he sees the competition not as with Earls Court-Olympia, but in the rest of Europe. Some 28m people live within 100 miles of the NEC — and London is just outside that radius at 110 miles.

To complement the NEC, a £120m convention centre is dne to open in 1991, together with a large hotel. But, to put these plans in perspective, even if the NEC goes ahead and doubles its space — and none of its larger competitors expands, which is an absurd assumption — Birmingham would rise from No 10 only to No 6 exhibition site in Europe.

Gabriel Bowman

A USEER'S GUIDE

Making the most of the opportunities

THE NIGHTMARE for all exhibitors is simple: having paid all that money for exhibition space, mailing shots, and the latest in stand design, few people bother to stop and give you the opportunity to make your pitch.

Any company that has ever exhibited will recognise that scenario and will undoubtedly have vowed that it would never happen again. Unfortunately, attracting sufficient numbers of visitors to stands appears an all-too-common a problem for many exhibitors.

What are the secrets of being a successful exhibitor? Most exhibition specialists believe that the failure for many companies is their lack of pre-planning for an exhibition.

"A successful exhibition stand is achieved by clear marketing objectives — of which one vital element is managing the flow of visitors in a logical and profit-orientated manner," points out Mr Paul Thornton-Allan of Aardvark Designs.

Many companies appear to go into an exhibition simply because it is there, or they have always exhibited, rather than because they have a conscious marketing plan.

"If an earlier exhibition prodnced 150 worthwhile sales leads, then there may be a new target to produce 200," points out Mr Thornton-Allan.

"But this means planning ahead and asking the designer to provide space for an extra sales person or a receptionist to allow the same number of sales staff to handle more prospects."

Thinking ahead also means balancing design with the right staff. It is pointless to set up the stand to maximise crowd-pulling if the sales team needs time to explain a difficult concept to potential customers.

But most exhibitors are concerned to ensure that they reach as many potential business "leads" as possible. But exhibition halls — like restaurants and theatres — have their less popular locations.

Being located too near the entrance of an exhibition, for example, is a notorious "black spot" in some halls since visitors tend not to want to visit the first stand they come to when entering the hall, nor the last stand on the way out.

It is important, therefore, to visit a venue during an exhibition to identify customer flows and good locations.

Even so, a well-designed and well-thought ont stand will usually get the right message across. The German Berkel computer weighing system, for example, at the Interpack exhibition last year caught visitors' attention. The edge of the stand was an array of system keyboards, softly lit to emphasise the visual display unit displays. The machines spat out printed tickets whenever a caller pressed a button.

The cost factor for many exhibitors, howevar, means that stand design will often have to make use of modular units which are flexible enough to be used in virtually all types of exhibition venues.

A well-designed stand will usually get the right message across

Successful exhibitions, however, depend on more than good stand design: they need to attract the right type of visitor. "Total business discussed by overseas buyers at the World Travel Market in London last year came to over £2bn," points out Mr Mike Rusbridge, chief executive of Industrial and Trade Fairs which organises the exhibition at Olympia.

"More than half the overseas buyers attending the show were of director level," he adds.

Exhibitors seemed satisfied as well. The Netherlands Tourist Board described the feedback from Dutch companies participating in its stand as "phenomenal". Hertz, the car rental company, is also placing greater emphasis on the World Travel Market than other continental trade fairs. "In my view, World Travel Market attracts better contacts and is well-timed," commented Mr John Hambly, vice president for sales and marketing for Hertz, Europe.

Avis, arch-rival of Hertz, believes that trade exhibitions are most beneficial for liaising with overseas partners and establishing new business contacts. It believes it is important to maintain a high corporate visibility at exhibitions.

Some companies, however, prefer to avoid the large-scale exhibitions such as World Travel Market because they feel swamped in such surroundings. Hotels increasingly are being used to provide small-scale exhibition venues. The Inter-Continental Hotel at Hyde Park Corner in London, for example, has 14,000 square feet of exhibition space available. However, it limits major exhibitions to about four a year because of the need to tie up all banqueting facilities with exhibitions.

Hotels, of course, are an important element in the exhibition industry since they provide the accommodation for visitors, especially from overseas.

Mr David Fasken, managing director of Earls Court and Olympia, believes that "travel agents and hotels should take a positive stand in support of exhibitions because they can only benefit from the expansion of the industry."

But Mr Dev Anand, deputy managing director of the Expotel Executive Travel reservations system, points out that some hotels have in the past experienced problems with exhibition organisers who have booked mass accommodation too far in advance.

"This has meant that overseas buyers and visitors whose plans are confirmed much later, and indeed the hotel's normal clientele, have not been able to book accommodation nearer the time," he says.

He says Expotel works with exhibition organisers and hotel groups to avoid "panic bookings" and ensnre a fair allocation of rooms for exhibitors, domestic and international visitors, as well as the non-exhibition guest.

Holiday Inn also believes in working closely with exhibition organisers. Mr Tom Eden, its sales and marketing director in the UK, points out that the hotel group uses exhibitions as well. "The conference business exhibition Confex, at the Business Design Centre, proves to be a valuable exercise as we get a lot of orders for our hotels' conference facilities as a result of exhibiting."

David Churchill

BUILDING CONTRACTS

Printing facility for Merseyside

WIMPEY CONSTRUCTION UK has been awarded a £40m contract by News International for a printing facility at Knowsley, *Merseyside, the tenth printing* plant built by Wimpey and the third for News International.

Located on the Knowsley Industrial Park, the printing facility will operate in conjunction with News International printing works at Wapping and Glasgow.

The 23,000 sq metre building, with a maximum height of 24 metres, will be founded on precast concrete driven piles with those supporting the printing presses bored to depths of up to 24 metres, anchored six metres into the sandstone substratum. The 6,600-tonne structural steel building will have floors of in situ concrete on permanent metal deckings. Tha heavy foundations are designed to limit vibrations from the presses and to carry the loads of the building.

Mechanical and electrical services, sprinkler ventilation and air conditioning equipment, extensive landscaping, fencing, earthworks, roads, car and lorry parking areas are all included in the contract which is scheduled for completion in 2001.

Southwark data centre

The LOVELL GROUP has been awarded contracts valued at more than £12.5m. Two contracts, together wortb more than £9.5m, have been awarded to Lovell Construction (London) and £3m worth have been won by Lovell Construction (Northern).

For Bankers Trust Company, Lovell (London) will carry out a £5m refurbishment contract on a 1960's building in Southwark Street, London SE1 to form a data centre. The contract includes construction of a staircase and lift shaft, tbe replacement of both lifts and the installation of services.

At Bath Road, Slough, Lovell (London) will build a three-storey office plus basement car parking under a £4.5m contract placed by Sun Alliance. The 33,500 net sq ft building is of reinforced concrete frame construction with in situ pad foundations and tie ring beams.

Under a £2m plus contract, *Lovell Construction (Northern)* is to build a 4,000 sq metre extension to a Guardian Royal Exchange office development completed by Lovell in June. The building, which will form a link to the newly-completed development, will be of steel frame construction on piled foundations with brick cladding and a pitched tiled roof.

US airport terminal

A US$59.7m (£35.5m) contract to build a terminal at a Californian airport named after a Hollywood legend has been awarded to TAYLOR WOODROW CONSTRUCTION CORP, of New York.

The company has started work on the building for Orange County at John Wayne Airport in Irvine, southern California, with completion scheduled in February, 1990.

The 300,000 sq ft two-storey terminal will be T-shaped with tbe cross-piece representing the 600 metre-long airside. The column of the "T" will house concessions and landside arrivals and departures.

The terminal will have three curved roofs - the longest over the airside area and the other two over tbe landside areas. Facilities will include 14 gates, baggage handling, ticket desks, shops, restaurants, lifts and a beating and ventilation system.

A glass diamond feature will be built into the middle of the structure and it will house a statue of John Wayne.

The structure will have reinforced concrete foundations with steel columns and stone facing and brick external cladding with glazed areas. The roof will be a combination of concrete, asphalt and metal decking.

A road system will link the terminal at ground level for arrivals and elevated for departures.

Sports centre

EVE CONSTRUCTION has been awarded a £6m contract to rebuild the sonth west side of the Oval cricket ground at Kennington, London SE11.

Demolition of the West and Nets stands built at the beginning of tbis century bas started and the completed project is expected to be handed over in April 1990.

The scheme - commissioned jointly by the Surrey County Cricket Club and tbe Club's Youth Trust - will provide a sports centre at basement and ground floor level for use by the club and the youngsters of Surrey and south London.

£24m orders for Tarmac

Projects throughont Britain worth more than £24m have been awarded to TARMAC CONSTRUCTION. The largest, at £7.7m, is for offices, warehouse and associated roads and services at Hedge End, near Southampton. When the contract, for Hampshire Business Park, is completed next summer tbe three-storey offices and 9,000 sq metre warehouse will be operated by the brewers Whitbread.

Other projects include a meat processing plant and external works at Scunthorpe for McKey Food Servicas (£3.6m); industrial units and car park at Westlea, Swindon, for Westlea Developments (£2.8m); refurbishing and building an extra floor at premises in Queen Street, Glasgow, for Scottish Metropolitan Property (£2.3m); and industrial units at Port Talbot, for the Welsh Development Agency (£922,000).

Tarmac Management has a £1.9m contract for refurbishing and fitting-out a bank in Newgate Street, London, for Svenska International and Tarmac Refurb has a £404,000 contract for alterations to a bank in High Street, Worcester, for Barclays Bank.

A number of projects have been awarded to the company's contract housing division, inclnding improvements to homes at Brightons, Stirlingshire (£1.6m) and Taunton (£1.3m).

DIARY DATES

FINANCIAL

TODAY

Trade Fairs and Exhibitions: UK

Current
International Garden and Leisure Exhibition - GLEE (01-390 2211) (until September 27)
NEC, Birmingham

September 27-29
Water and Environmental Management Exhibition and Conference (01-637 2400)
Eastbourne

September 27-29
City of London Wine Fair (01-636 4141)
Barbican, London EC2

September 28-30
National Finance Directors Exhibition and Conference (01-837 1133)
Business Design Centre, London

October 2-4
International Flower Trades Exhibition - IFTEX (01-486 1951)
Alexandra Palace, London

October 2-4
British Footwear Fair (01-739 2071)
Olympia

October 7-9
National Franchise Exhibition (01-727 1929)
Kensington Exhibition Centre

October 7-10
British Designer Show (01-385 1200)
Olympia

October 10-16
International Motorcycle Show (01-385 1200)
Earls Court

October 11-13
International Chemical Industries - CHEMFAIR (01-486 4545)
Heathrow Penta Hotel

October 22-30
British International Motor Show (01-235 7000)
NEC, Birmingham

October 24-28
International Business Show (01-868 4499)
Earls Court

October 25-28
Building Exhibition - BUILDING (01-486 1951)
Earls Court

October 25-27
Fluid Handling Exhibition (01-680 7525)
Wembley Conference Centre

Business and management conferences

September 26
Public Issue Conferences: The industrial gas market in Britain and Europe (01-283 7962)
London Press Centre, EC2

September 28- October 1
Local Enterprise Development Unit/Small Firms Task Force of the European Commission: The Enterprise in Action Conference (0238 561993)
Belfast

September 28-30
RIRG: Captive insurance companies (01-836 0614)
The White House Hotel, London NW1

September 30
M11 Corridor Review/Bidwells: Strategy for development in Cambridgeshire (0954 31964)
Churchill College, Cambridge

September 30
Dataquest Indnstry Conference: Integrated circuit outlook '89 and 1992 workshop (01-353 8807)
Hotel Inter Continental, London

September 30
Gazeta Mercantil/The Brazilian Chamber of Commerce in Great Britain: Conference on Brazil'a debt equity programme (01-444 5116)
Dorchester Hotel, London W1

Overseas Exhibitions

Current
International Beverage Production and Brewing Technology Exhibition - CHINA BEVERAGE/CHINA BREW (0494 729406) (until September 26)
Beijing

September 26- October 2
International Technical Fair (0892 48111)
Plovdiv

October 5-8
International Furniture, Furnishings & Household Equipment Exhibition - MODERN HOME (01-236 2399)
Hong Kong

October 5-10
Book Fair (01-734 0543)
Frankfurt

October 10-13
Gulf Information Technology Exhibition (01-930 3881)
Dubai

October 11-14
Computer Show (0869 244738)
Moscow

October 13-16
International Fish Farming Techniques, Equipmant and Products - ACQUACOLTURA (01-458 4860)
Verona

October 20-31
International Trade Fair SINTRA (01-834 5082)
Seoul

October 26-28
International Electronics Show- INTRON (Dublin 900600)
Dublin

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

LEGAL COLUMN

Case presented for disclosing rates of charge

By David Churchill

THE LEGAL profession is slowly coming to terms with what could be one of the most significant developments for many years in the way in which solicitors and barristers operate: namely, telling customers just how much they are expected to pay for professional services.

Mr Bill Park, head of litigation services at Linklaters & Paines, a leading firm of solicitors in the City, says: "We are in an era where change is upon us and the profession may have to consider some fairly radical changes in the way it treats its clients."

Pressure for change has been spearheaded by the recent report of the review body on Civil Justice, set up three years ago by the Lord Chancellor to tackle the costs and delays in civil litigation.

This stated that "solicitors and barristers should be encouraged and expected to provide information to the public by way of stated rates per case or per hour and should be entitled to free publicity about those rates in lawyers' referral lists."

The review body's recommendation largely passed unnoticed at the time amid the proposals to cut the number of cases going to the High Court by as much as 70 per cent.

Yet the move to provide more details of just how much it costs to go to law could lead to a greatly enhanced competitive environment for legal services.

The review body said: "Competition in an open market . . . is a desirable means to maintain and improve standards of service."

However, what worries solicitors most are the implications of such disclosures – and the fiercer competition that will result.

Ms Tammy Goriely, a lawyer and senior research officer at the National Consumer Council and author of its response to the civil justice review, says: "Increased competition will not drive the cheapest firms of solicitors ont of business."

Her analysis is based on the fact that many consumers are deterred at preseot from using legal services by their fear that costs are too high and outside their control. "Greater competition is likely to expand the market for legal services," she says.

A survey of divorced people in Bristol and Newport who had received legal aid found that about six out of 10 said their solicitors had not discussed costs with them at any time. Typical comments included: "You can never get any idea of costs from anyone"

The Law Society accepts that there are certain types of litigation, such as debt and simple undefended divorce, for which solicitors can quote a fee in advance.

Moreover, its guidelines on professional standards – which describe "preferred practice" rather than hard and fast rules – only suggest that a solicitor "should give his client the best information he can about the likely cost of the matter."

If no fee or estimate has been agreed then the solicitor *should* tell the client how the fee will be calculated – whether on the basis of an hourly rate plus mark-up, a percentage of the value of the transaction, or a combination of both. However, at present there is no obligation to do so.

Ms Goriely believes there should be. "The written professional standards should be amended to require solicitors to declare at the initial interview the hourly charging rate of each solicitor or legal executive dealing with the case," she says.

Although she acknowledges that the charging rate is not the only factor in the amount of the final bill – a specialist, for example, may have a higher rate but take a shorter time – the disclosure of charging rates would make it easier for clients to make comparisons between different firms of solicitors.

What the legal profession – isolated from the winds of competition for so long – needs to understand is that its customers are unlikely to choose between individual firms on price alone. It is simply one factor to be weighed against others, such as reputation, specialist skills and accessibility.

Students 'disenchanted with law careers'

DISENCHANTMENT with the legal profession as a career is revealed in a survey of more than 2,000 undergraduates carried out earlier this year by Gouldens, the City firm of solicitors.

It found that only four out of every 10 of the students surveyed, who were reading law, history or economics, saw the legal profession as a potential career. A third of law students, moreover, wanted an alternative career.

The cause of this disenchantment for a profession already having difficulties in attracting qualified graduates appears to be the length of further training and a belief that solicitors' work is boring, monotonous or office-bound.

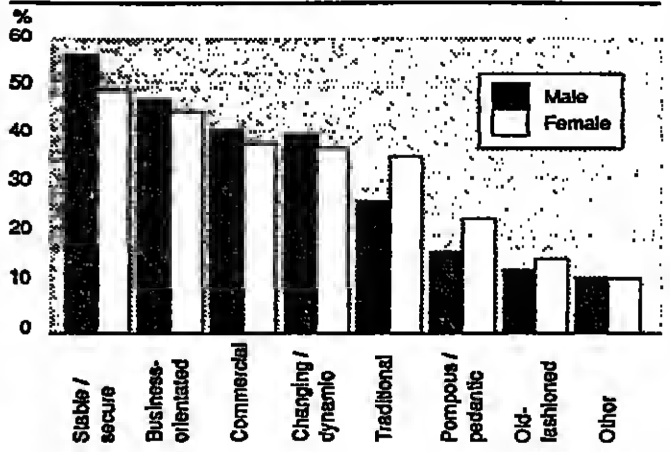
Ms Clare Deanesly, partner in charge of articled-clerk recruitment at Gouldens, points out: "Firms still have some considerable way to go before the profession is seen as anything more than elitist and conservative in its approach."

Two-thirds of those undergradoates seeking a legal career were motivated mainly by the financial rewards they expected from the profession.

Women students inteoding to become solicitors, however, had lower salary and partnership expectations than male students.

"The concept of a long-term career within the profession appears to be steadily eroding," says Ms Deanesly. "The continuity of private practice seems to be increasingly subject to the external pressures of financial reward elsewhere. Law firms will have to work increasingly hard at generating loyalty among their staff."

View of profession amongst those intending to enter it



Source :Gouldens

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THE LEGAL PROFESSION

The Financial Times proposes to publish this survey on:

Thursday, 20th October 1988

For a full editorial synopsis and advertisement details, please contact:

Wendy Alexander on 01-248 8000 ext 3526 or 01-248 5122

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Details of specific client opportunities will be advertised in the new legal section of "The Financial Times" in forthcoming weeks.

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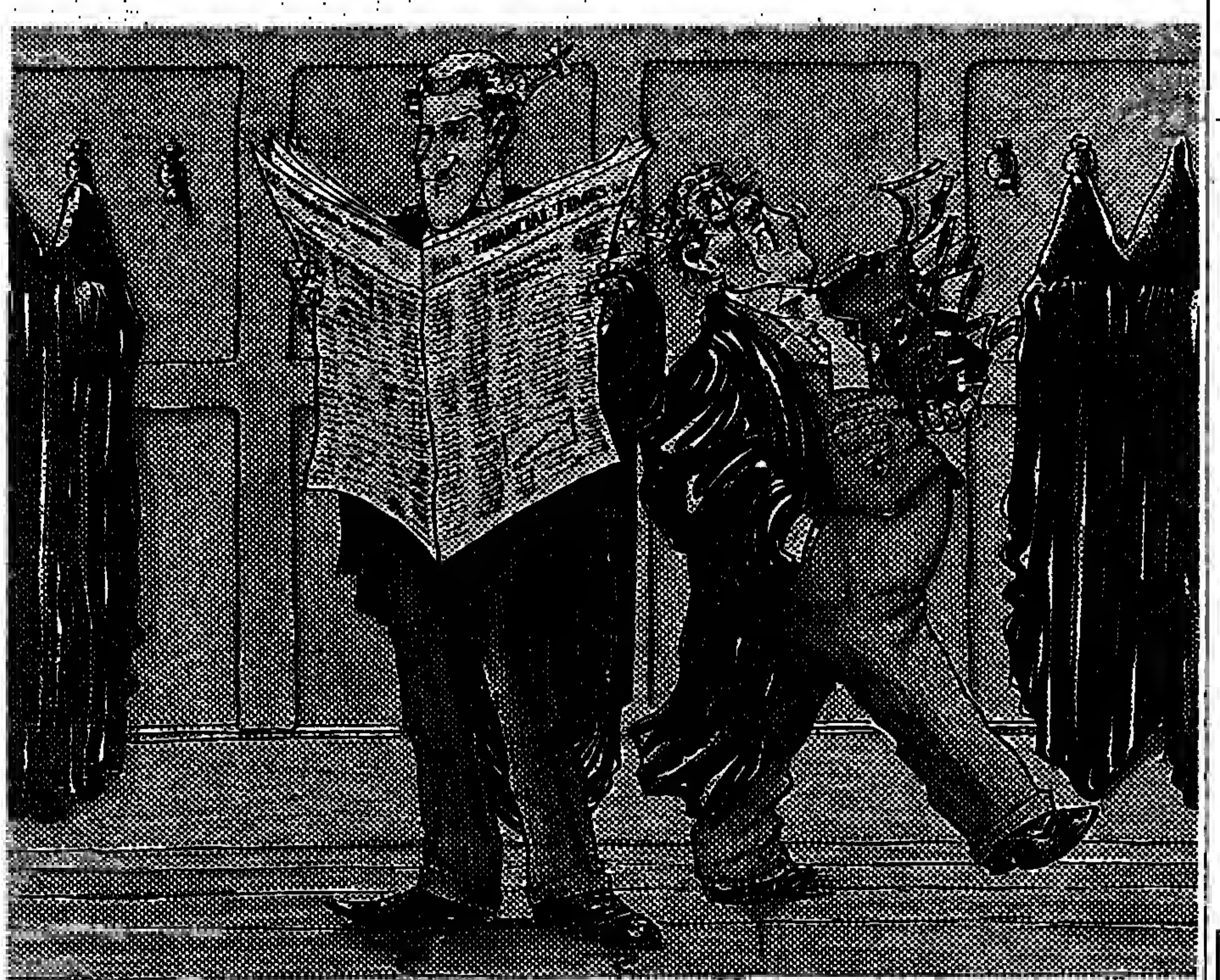

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The result will be announced in the FT's new Legal Pages on Monday 10th October. If yours is the winning entry, you'll receive 12 bottles of the FT's own Laurent Perrier Rosé Cuvée Champagne. You, and the nine runners up, will also receive a framed, limited edition print of the illustration.

FINANCIAL TIMES
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Cardiff University

Academic answer to a management disaster

David Thomas explains how one Welsh institution has come to the rescue of another that was nearly bankrupt

A small concern lives for many years in the shadow of a larger, older outfit. The larger operation falls prey to mismanagement on a heroic scale. On the verge of bankruptcy, its top executives are booted out and the managers of the smaller outfit pick up the pieces.

This is the story of a reverse takeover, common enough in the business world. But this is not a mainstream business story; it is a tale of two universities.

Today sees the formal launch of a new British university institution. Blessed with the clumsy name of the University of Wales College of Cardiff, it will have about 8,500 students and an annual turnover of around £80m, making it one of the larger universities in Britain.

Dr Aubrey Trotman-Dickenson, its first head, hopes it is now poised to become a top flight British university.

The launch is also intended to close one of the unhappiest episodes in the history of British public administration – the collapse into near bankruptcy of University College, Cardiff (UCC), widely regarded as the flagship of higher education in Wales.

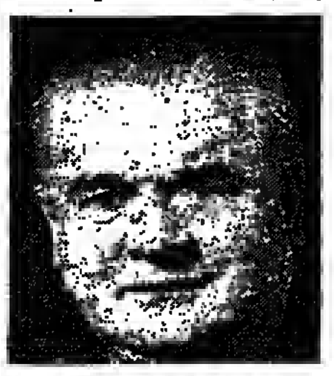
UCC is being given a fresh start through its merger with another Cardiff-based university, the University of Wales Institute of Science and Technology (Uwist). UCC was twice the size of Uwist. It was older. It had a more distinguished reputation. And it catered for the full spread of academic studies, while Uwist, a former technology college upgraded in the 1960s, concentrated on science and technology.

Yet Uwist was firmly in the driving seat during the merger. Trotman-Dickenson moved over from Uwist to run the merged institution, where he had been principal. He imported not only most of his senior administrative staff from Uwist, but also Uwist's management systems.

The management cultures of the two institutions could not have been more different – differences which say much about the pressures on the universities in the 1980s, a decade of cuts when the effective management of resources has become important as never before.

The culture guiding UCC became all too apparent in 1986 and 1987 when it became apparent that it was approaching bankruptcy, a state without precedent in British universities.

Equally without precedent were two initiatives to dig UCC out of its hole: intervention by Sir David Hancock, permanent secretary at the Department of Education and Science, who threatened in February 1987 to block payments to UCC until it took steps to restore budgetary



Aubrey Trotman-Dickenson: imported Uwist's senior managers and systems

control; and a £11.1m government bale-out for UCC offered in May 1987 on tight conditions, including the resignation or dismissal of UCC's long-standing principal, Dr Bill Bevan.

Aspects of this dismal affair remain unclear, including whether the DES and the University Grants Committee should have intervened earlier – an issue under consideration by the Commons Public Accounts Committee, due to report sometime in the next six months.

Yet the outsiders brought in from 1986 onwards to deal with the mounting crisis seem to agree it was formed of three main elements, a view recently fleshed out by Michael Shattock, registrar of Warwick University,* who led an external team appointed in 1987 to examine UCC's affairs.

● Deliberate policy. UCC, *almost uniquely in Britain*, appears to have decided it could ride out the cuts imposed on the universities in the early 1980s.

While other universities were cutting deep into their complements, UCC told the authorities in 1983 it was planning to shed only 29 of its 565 academic staff.

There was little sanction on consistent over-spending by departments. To make up some of the leeway, UCC slashed the uncontentious repairs and maintenance budget, thus storing up trouble for the future.

● Incompetence. Shattock's account contains a catalogue of breath-taking blunders. An appeal fund spent more money on staff and entertainment than it raised in cash and covenants. UCC sold one property for £104,000 and then spent £168,000 relocating staff. It underestimated the payback rate for a new £850,000 telephone system by £100,000 a year. And so on.

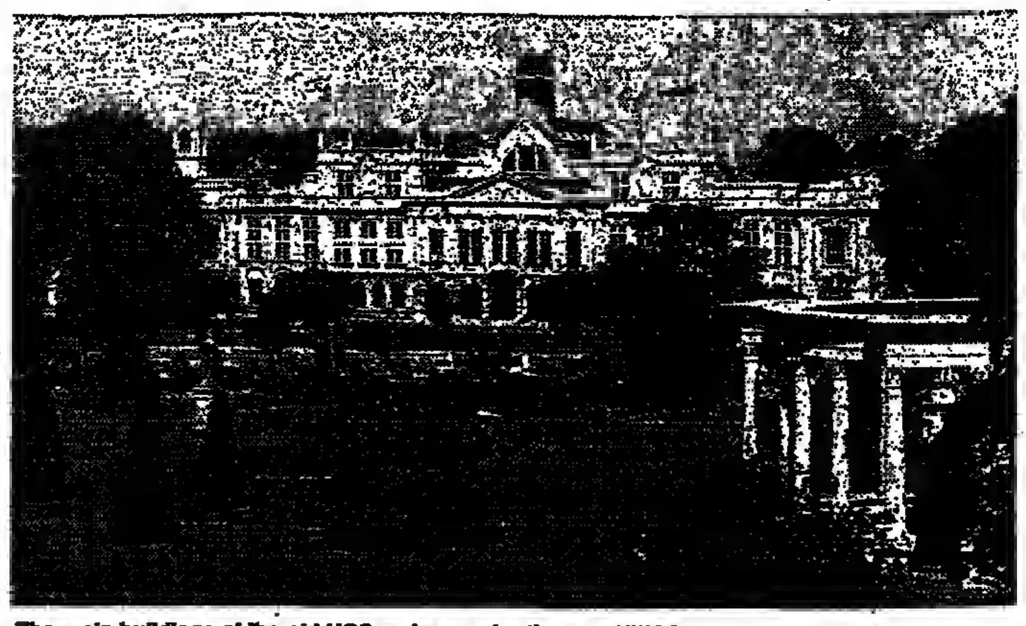
● Inadequate management systems. Elementary controls were lacking. There was no internal audit team. UCC's Finance Committee did not ask for an annual budget and passed major items of expenditure, such as an extravagant early retirement scheme, without prior circulation of a paper.

This combination produced a spiralling deficit. In March 1987, Shattock forecast a cumulative deficit of £16.7m by 1989-90 on unchanged policies.

A very different operation was being run at Uwist by Trotman-Dickenson, described as "one of the very best financial managers that any university or college has" by Sir Peter Swinnerton-Dyer, chairman of the University Grants Committee.

Trotman-Dickenson, a chemist who had been Uwist principal since 1968, reacted early to the colder climate in the universities. Not only did he spend less on staff, he also changed the spending pattern; many were put on short term contract, giving him greater control over costs if income fell.

When Trotman-Dickenson was brought in to run, first, both UCC and Uwist for a transitional period and, then, the new merged university, he had something of a blank slate. The principal, bursar, chairman of council, treasurer and chairman of finance committee at UCC had either gone or were on their way out.



The main buildings of the old UCC make way for the new UWCC

One of his first actions was to overhaul the financial information and control systems at UCC. As Trotman-Dickenson tells it, there was plenty of crude information; the problem was the failure to put it into a form facilitating management control.

Responsibility for most spending decisions in the new institution is pushed out to departments, which are given clear information about their income and costs.

In particular, a high proportion of the income which can be influenced by the university's own activities – mainly the number of overseas students and research contracts – is allocated to the department raising that income, with as little as possible retained in the centre. The corollary of greater freedom for departments is clear penalties if they overspend.

Trotman-Dickenson also had to manage the departure of 142 academic staff, about a quarter of UCC's total, imposed as part of the government-backed rescue package. Achieved mainly through early retirements, Trotman-Dickenson says this exodus was not as disruptive as it might have been, because the university was mainly able to plug the gaps of those choosing to leave.

Where the parallel with a business merger breaks down, however, is the lack of any significant rationalisation savings. Trotman-Dickenson points to some savings from the merger in shared equipment, library costs, administrative facilities and premises, but these are relatively small beer.

Indeed, Trotman-Dickenson sees greater size as the main benefit of the merger. Many of the departments, particularly in the sciences, will now have a string of professors; they will thus have the flexibility to react quickly to growth areas in their fields.

The diverse engineering-related departments in UCC and Uwist, for instance, have been amalgamated into two new large schools: one covering electrical, electronic and systems engineering; the other specialising in civil, mechanical, minerals and materials engineering. The new institution is building a new £20m complex for the merged engineering operation.

Economics, accounting, management and industrial relations courses, plus the Cardiff MBA, are all to fall under the Cardiff Business School, which will have 67 teaching staff. Professor Roger Mansfield, the business school's head, said he would be able to provide many more options than either UCC or Uwist could separately. The staff of UCC's nationally known motor industry unit, for instance, will put on courses for many of the degrees in the business school.

Yet, in another departure from the parallel with the business world, one of the obvious criteria for judging the future success of the new university – namely growth – is all but useless. The arrangements for funding Britain's universities are such that the number and funding of a university's British-based students are determined by the central authorities.

At the Cardiff business school, for instance, Mansfield has little incentive to recruit more British undergraduates, since most of his courses are over-subscribed. In its bid for growth the new university will have to concentrate on important, but relatively fringe activities, like attracting more research contracts from industry and catering for the growth in part-time adult education.

Meanwhile, the past few weeks have shown that Trotman-Dickenson still has morale problems to sort out. The Association of University Teachers at Cardiff has been deeply dismayed over the possibility of two academics being made compulsorily redundant and over proposed new conditions of service, which include a secrecy clause forbidding academic staff to talk to outsiders about university affairs. Martin Machon, the AUT's regional official, accuses the regime of a "macho" manangement style.

As Michael Shattock concluded in his review of the Cardiff phenomenon, "an effective organisation culture needs to be developed and maintained over many years; there are no short cuts."

**Michael Shattock, Financial Management in Universities: the Lessons from University College, Cardiff, in Financial Accountability and Management, vol.4, no.2, summer 1988, Basil Blackwell.*

Management education

The enthusiastic and the ignorant

By David Thomas

Consider these two findings from a survey of managers' attitudes to management education published last week:

● The great majority of the respondents – nearly four fifths – would be willing to invest their own time to gain management qualifications.

● Most of the same bunch of managers were extremely ignorant about the present array of management qualifications. Many did not even know of the MBA. Only a tiny minority had heard of the Diploma in Management Studies (DMS) and Certificate in Management Studies (CMS).

Two interpretations can be made of these findings, contained in a report* prepared by Deloitte Haskins & Sells for the Training Commission: the cynical and the optimistic.

The cynic would argue thus. Of course most managers will reply positively if quizzed about their attitude to more management training.

But judge people by what they do, not by what they say – especially when their words are uttered to outside consultants. This group of managers, apparently so eager for education, had not even roused themselves enough to investigate what was on offer.

The optimist, by contrast, has a more charitable interpretation. These managers really are keen for more education. The problem is with the training environment. The managers, busy people, are faced with a highly confusing plethora of training options which puts them off the race before they reach the starting line.

The authors of the report are firmly in the camp of the optimists. "These results indicate that there is a serious market failure in the supply of information," is the conclusion they draw from their apparently contradictory findings.

This optimistic reading was echoed last week by Bob Reid, chairman of Shell UK and of the Council for Management Education and Development (CMED), the group pushing for an overhaul of Britain's management education based on the creation of the new concept of Chartered Manager.

The Deloitte's survey was the first to ask individual managers, as opposed to companies or training organisations, for their views on this notion. The responses of 113 west midlands managers on their training needs were explored in a mixture of discussion groups and individual interviews.

Most of the managers were interested in training that would give them a fairly basic set of skills.

But they also plumped for a sophisticated structure to their preferred mangement qualification – one which progressed through a series of steps; tested both skills and knowledge; consisted of discrete units separately addressed; and with employer involvement in assessment plus some form of external checking.

The cynic's suspicions might flare up again. These features are, after all, precisely what CMED is pushing for in its proposed qualification. This would have three levels: a foundation course for junior managers; a diploma for middle managers; and a master's programme for more senior levels, with the title of Chartered Manager going to those who complete the diploma.

However, Sheila Drew-Smith, leader of the Deloitte's team, says the managers in the survey came to these conclusions before they were introduced to the concept of Chartered Manager. Indeed, the Deloitte's report goes on to analyse the managers' misgivings about the chartered idea.

The respondents were worried about the role of employers in assessment because of the potential lack of consistency across organisations.

But scepticism about the credibility of a new qualification emerged as perhaps the greatest barrier. Managers would want the assurance of wide recognition for the qualification before investing time or money in it.

This throws the ball back in the court of those employers enthusiastic about the new qualification. Can its launch be managed in such a way that it quickly gains credibility in the market place? Bob Reid, who is due to report progress to the CBI conference in November, is an optimist on this too.

**A Charter for Managers, Sheila Drew-Smith, Deloitte Haskins & Sells, PO Box 198, 26 Old Bailey, London EC4M 7PL.*

ARTS

'Whitsunday' at the Sydney Opera House

Max Loppert reviews perhaps the most adventurous item in the current season

The winter segment (June 7-October 29) of the Australian Opera's Bicentennial season at the Sydney Opera House is particularly full and ambitious. It includes not only repertory favourites (*Forza*, *Otello*, *Manon*, *Bohème*) but such Sydney rarities as the first local productions of *The Rake's Progress* and *L'incoronazione di Poppea*, and the forthcoming *Meistersinger*, also a first-time event, conducted by Charles Mackerras and produced by Michael Hampe.

But perhaps the most adventurous item in the season is the new opera commissioned by the company with funds from the Australian Bicentennial Authority to make a special contribution to the national festivities. This is *Whitsunday*, a short three-act chamber opera by the Australian composer Brian Howard to a libretto by the highly-regarded Australian playwright Louis Nowra. Serious-minded companies generally attempt such things on such occasions as the Australian Bicentenary; seldom does the attempt provide the specifically local capturing of form and medium that *Whitsunday* achieves. The dramatic dynamism of the work seems the more extraordinary given the extremely late completion of its score (it is common knowledge in Sydney that cancellation was only a hair's-breadth away from the first night).

The work as I encountered it, at the fourth performance in the run, does show marks of haste, and will bear revision. The genuine excitement that attended the experience survived the rough edges intact. Howard, in his early 40s, has several earlier operas to his credit, including the 1985 *Metamorphosis* based on Kafka and, before that, *Inner Voices*, extracted by the composer from a radio play by Nowra of the same name (it was with this opera, given in 1983 as second half of a New Opera Company double bill, that Howard was introduced to London).

The latest work is in fact the first full-scale collaboration between composer and writer: they set out with a single ideal – to produce a work, "Australian" in thematic content, that would be about magic and love, a tale that (as Nowra's programme essay puts it) "could be told around a fire on a winter's night." They also had before them the inspiration of Watteau's *L'Embarquement pour Cythère* – a vision of the paradise awaiting the traveller.

The result is an original mixture of narrative simplicity and poetic substance, with a web of symbolism and darker shadows woven around the main argument that nevertheless remains iridescent, unportentous. Nowra's libretto is altogether a brilliant piece of work: singable, clearly phrased, and above all "musicable." Whitsunday Island, off the north Queensland coast, is the setting for a holiday picnic party, time the early 1900s, from the largest sugar plantation on the mainland – the owner, his wife and two sons (Heath Robinson-ish inventor and dreamy, bookish romantic); their plantation manager and attendants, and the Kanakan orphan girl Clara, a recently-baptised Christian, who serves as housemaid.

Act 1 sets the scene, and subtly brings out the plot strands – the love blossoming between the bookish son Lawrence and Clara; the white-supremacist leanings and violent empire-building past of Johnson the manager; the island's aura of magic, unfelt by most of the "Europeans" of the party. In Act 2 darkness suddenly takes over, and through thickets of terror and confusion, where secret desires and supernatural forces become overt, Lawrence and Clara try to reach each other. At the start of Act 3 we learn that all of Act 2 has lasted no more than the length of a brief solar eclipse – but, while other picnic members resume their original thoughts and positions, untouched by the self-knowledge that the darkness has occasioned, the young couple admit to each other the love they have found, which (in Nowra's words) "can transcend the prejudices of class and colour."

Parallels are there to be drawn with *The Tempest*, *Die Zauberflöte*, and *The Midsummer Marriage*. But in terms of musical form and language Howard owes nothing obvious to Mozart or Tippett. The scoring of the outer acts promotes a delicately fantastic exoticism, with the local accents and colours of marimba flutters and woodwind arabesques to set the scene. Darker tints accrue in the middle act, though atmospheric distinctions are here drawn with perhaps insufficient sharpness. The linguistic mode of the music is Bergian atonal-romantic, capable of aromatic infusions of lyrical euphony – as the characters reveal their darker side, so themes associated with them undergo fascinating extensions or inversions.

It is, however, the middle act that still needs sharpening and bringing into full focus. All the same, compared with *Inner Voices*, which I found an expertly "tuned" play rather than an opera, *Whitsunday* creates thrilling moments of operatic enchantment. It deserves to be re-worked and re-mounted, here and elsewhere, for it has something really fresh and significant to say.

It was performed not in the main Sydney Opera House but in the adjacent small (and musically less than ideal) Drama Theatre, in a rather too obviously low-budget staging. But under the direction of Stuart Challender, the outstanding Australian conductor of the day, the ensemble of 10 singer-actors and 15 instrumentalists was exactly meshed. John Shaw, veteran of so many Covent Garden performances in the 1960s and early 70s, was still in robust, commanding form as Johnson, there were strong cameos from David Collins-White, Christa Leahmann and John Wegner, and as Clara the very young Papuan soprano Miriam Gormley made the perfect impression of dusky, dewy freshness, a delight to ear and eye equally. To the subject of the main Sydney Opera House, and also the Concert Hall, and the other events I saw and heard in both, I shall return shortly.

Miriam Gormley and David Hobson in 'Whitsunday'

ARCHITECTURE

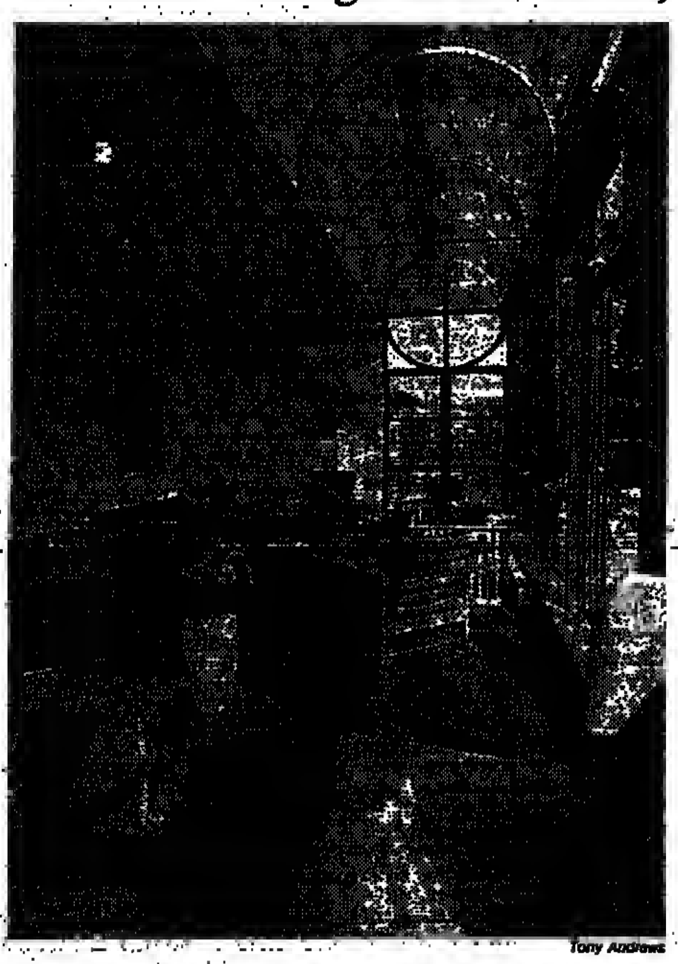
Making an AIDS hospice feel like home

Colin Amery visits the London Lighthouse Centre, about to open in Kensington

Since the hospice movement was founded in 1967 by Dame Cicely Saunders, several specially-designed hospices for the dying have been built. It is a difficult and delicate area for any architect because the practical needs of the terminally ill can so easily conflict with emotional and spiritual demands. The use of the term hospice itself exposes not just the linguistic dilemma we face when talking about places for the dying, but also the role that sentiment plays when we discuss the inevitable fact of death. Hospice – a refuge for travellers – is as good a term as any, although it still suggests that the place will probably be run by beaming monks and starched sisters of charity.

Hospices provide care and surroundings for the dying that are often of a high standard. The problem is that the voluntary hospice movement can only care for some 10 per cent of the cases that are referred to them. Also, the majority of hospices care for patients with terminal cancer, and there has been resistance to do a great deal for patients dying from AIDS. Because the course of the virus is so unpredictable, there is uncertainty about the sort of provision necessary for those patients, which makes planning difficult. Scare stories will predict thousands of terminally ill, although the current DHSS figures can only estimate about 100,000 carriers. Up to the end of July 1, 669 people had been diagnosed with AIDS and some 916 had died.

The first of two special AIDS units is about to open in London. The London Lighthouse Centre in North Kensington opened its doors to the press last week, and the Midway Mission in the East End of London will soon follow suit. Like any hospice, the demand was for a building that is not institutional. Director of the centre, Christopher Spence, asked for a "beautiful centre, which is warm, loving and non-institutionalised where people will be welcomed with respect and friendship." The ensuing architectural competition was won by a firm called First Architecture; Robert Sproson and David Barrable's team undertook a considerable amount of field work to discover what the London Lighthouse was trying to provide, and to find out what the special needs of "People With AIDS" (PWAs) were.



Tony Andrews

The day room with a terrace overlooking London

The feeling of the Lighthouse founders was that help for those often dying alone was "late in coming." With the help of a loan from the J. Paul Getty Foundation and substantial gifts from other charitable trusts, they purchased a former school in North Kensington. There was a need to add on some 1,100 square feet of space to this architecturally indifferent old building. There had been local controversy about the siting of such a centre, and the architects clearly thought a great deal about the image they wished the centre to project to the outside world. There was also the need to make a building staffed by 85 people feel "like home."

That is not an easy brief. The most important area of the three storey building is the top floor, where there is room for 24 residents. As medical treatment will extend only to convalescent, respite or terminal care, this has the feel of a comfortable hostel. The 24 beds are arranged in a variety of combinations; the largest room has nine beds arranged in a handsome room in the large curved bay at the front of the building. Because the centre is registered as a nursing home and not a hospital it has been possible to use more natural materials, with a preponderance of polished ash, wood and pastel colours. There are wing arm chairs, colourful textiles, reading lamps with elegant shades and homely furniture. The beds are not hospital metal but wood, and there is a blanket chest for each. Bathrooms have Victorian patterned bands of tiles and the floors are lino laid in geometric designs. The atmosphere is undeniably designed and very agreeable. There is a hint of the world of Habitat, but that is in itself reassuring. The most successful room is the day room on the top floor with a curved glass roof, beautiful blinds and a sense that you are in a conservatory. A terrace looks over London. All this light and colour is appropriate and pleasant.

But these are going to be rooms where people will die and the Lighthouse deals with this fact in its own particular way. The mortuary and room for viewing bodies are on a mezzanine floor, and it will be possible for a funeral service or gathering to be held in the main hall of the building. DHSS regulations concerning HIV infection normally make it difficult for friends and relatives to see someone after they have died from AIDS, but the Lighthouse makes this acceptable and possible.

The rest of the centre has a more public purpose. Most of the ground floor entrance area is like a huge sitting room, with comfortable upholstered furniture. There is a café and a kitchen that will serve residents and visitors; there is a non-denominational quiet room.

Funding for the centre has come from many charities and individuals and the Department of Health and the Health Authorities and London Boroughs have contributed some 50 per cent of the costs, which total to date some £4.8m. Running costs and the final £300,000 still need to be raised. It is a remarkable example of private and public co-operation.

The London Lighthouse does break some new ground in the domestication of hospital services. Architecturally it is in the fine hospice tradition – a cross between the cottage hospital and the private nursing home. It is in its scale and use of natural materials and colours that it is most successful. The building makes the caring easier – it faces death cheerfully and comfortably. By making the material conditions so good it may help its residents to face the next world with calmness and dignity. Certainly the architects could not have done more.

Double Act

PLAYHOUSE THEATRE

Jeffrey Archer's palace of culture on the Embankment is certainly providing a mixed programme. As a result, it is likely to achieve only mixed success. You simply have no idea what to expect next.

Such as, this oddball, crude variation on Noël Coward's *Private Lives*, an alleged hit from Australia. Its author, Barry Creyton, recounts in the programme how he interrupted a busy acting schedule by falling off a motorbike and embarking on the play's last draft while immobilised in a Perth hospital. Does this make him the most plastered playwright since Brendan Behan? Would that he were as unruly.

George is a scientist who has been divorced for five years from Alexandra, a business executive. They had been married for ten. Their childlessness could have been caused by George's sterility, or his attachment to his gay therapist, or just impending impotence.

"Latent homosexuality be buggered" cries Simon Cadell, not facing the facts while trying to understand his appetites. At the first chance reunion he puts his hand down Alex's dress to fix her bra strap, enacting, with Lisa Harrow, an amusing but forced ballet of social embarrassment. But when they rendezvous in the bedroom, he still has trouble rising to the occasion. Alex has settled in with a stud whom George resents while diverting himself with a string of willing models.

All of this sounds ridiculous and unlikely, but the author is bent on echoing the strange enchantment between Coward's Amanda and Elyot Chase. Those two hated to love, and loved to hate, each other. We also see the couple on separate psychiatrists' couches, smart aleck banter finally bulldozed by full-blooded confession.

The title suggests that a routine or vaudeville is under way, and Nicholas Renton's snappy production dutifully supplies travelling neon lights to announce each scene and a pastel parti-coloured set by Poppy Mitchell in which screens and wallpaper coalesce in a Big Top effect.

Cadell makes George robustly complex within that rigid, brittle mask of ambivalent affection, firing off his brutishly unwitty lines with an endearing but misplaced Cowardian expertise. His rasping nastiness is always vulnerable. Miss Harrow's role is just as unconvincing, but less well written. How could she say, after an abortion, that "it wouldn't have lived anyway", as if that solved the problem.

The vile insensitivity of this writing is certainly matched by the impoverished vocabulary throughout, as staccato insult sessions are rapidly followed by mawkish monologues, dire repartee and thin-blooded farce. George's flies, apparently, are permanently undone, which suggests he is either proud or forgetful, or more probably stupid, or even more probably the tool of a playwright in search of cheap laughs. Miss Harrow's melting loveliness is sporadic, but insufficient, compensation.

Michael Coveney

The Secret of Sherlock Holmes

WYNDHAM'S

What this exiguous little arabesque on Holmesian themes is doing in the West End, all (handsomely) dressed up pretending to be a full-length play is a mystery that might have furrowed the brow of the great man himself. The first half meanders in a gracefully leisurely way for 35 minutes during which no plot emerges and nothing happens. After the interval nothing happens again – but the play should not on that account be confused with *Waiting for Godot*. It is performed entirely by two actors, one of whom dons a disguise – but should not for that reason be confused with *Sleuth*. Not counting the interval, there are about 70 minutes of theatre altogether. One detects a rejected television play. It is really quite elementary.

Jeremy Brett and Edward Hardwicke have successfully impersonated the junkie fiddler and his sawbones sidekick in Granada TV's adaptations. Jeremy Paul has written some of the episodes. Patrick Garland is a director whose shrewd finger on the age's pulse and grasp of High Art are illustrated by *Fanfare for Europe* and (for the Queen's birthday) *Fanfare for Elizabeth* and Paul Gallico's *The Snow Goose*. There is the tell-tale odour of opportunism to this precious, but not quite precious enough, evening.

Poppy Mitchell's set combines richly swagged curtains, furniture that trundles round on the revolve, and a striking backdrop blow-up of a Doré London slumscape. Dry ice billows impressively for the Reichenbach Falls. It is all quite beautifully done. Nigel Hess's music provides a rich port-wine background score, faintly Bruch-like for the Great Detective's catgut exercise, and, less appropriately, a tinkly version of La Périchole's Letter Song when Holmes's one love, the opera singer Irene Adler, is mentioned.

The first act curtain falls on the swooning Watson as Holmes returns three years after his alleged death. The second spins out the explanation for his absence and reveals that he is as addicted to Moriarty as he is to his favourite narcotic. There are moments of delicate camp in Holmes's reminiscences but Mr Brett actually kills it by being too good an actor. He plays the twitchy drug addict for real. With a hair-style that recalls T.S. Eliot and a heavy-lidded disdain modelled on Bette Davis, he makes us long to see him in something substantial – something at least that observes the narrative requirements of consistency and logic.

Martin Hoyle

ARTS GUIDE

September 23-29

MUSIC

London

Beethoven Plus is a series of concerts between September 18 and December 10 which seek to set the composer's music in the context of his own time. The work of over 30 of Beethoven's contemporaries will also be featured. Royal Festival Hall, Queen Elizabeth Hall, Purcell Room. (928 3191).

London Symphony Orchestra and Chorus, conducted by Rafael Fruhbeck de Burgos, with Benjamin Luxon (baritone). Vaughan Williams, Elgar, Walton (Tue). Barbican Hall.

Melvyn Tan, Eric Hoeprich (fortepiano, clarinet). Rossini, Beethoven, Weber. Purcell Room (Mon) (928 3191).

London Soloists Chamber Orchestra, conducted by David Josefowitz, with Evgenia-Maria Popova (violin), Ileana Ruhemann (flute/piccolo), Peter Williams (bassoon). Vivaldi. St John's Smith Square (Tue).

Ambache Chamber Orchestra. Mozart. First concert at the Old Vic Theatre since 1912. (Wed) (928 7616).

Ted Heath Band, directed by Don Lusher, with special guest Benny Green. Barbican Hall (Wed).

David Johnstone (cello), Paul Turner (piano). Beethoven, Ruth Gipps, Dvorak, Tchaikovsky. Lunchtime recital (Thur).

Fairport Convention. Only London concert of 1988. Barbican Hall (Thur).

Paris

Nouvel Orchestre Philharmonique, conducted by Yves Prin, with Carlos Roque Alsina (piano). Stravinsky, Levinas, Bon. Radio France, Grand Auditorium (Mon) (42.30.15.16).

Ensemble Intercontemporain Soloists, Pierre-Laurent Aimard, Pi-Hsein Chen (piano). Goeyvaerts, Messiaen, Boulez, Berio. Radio France, Studio 106 (Mon 6.30 pm) (42.30.15.16).

I Solisti Veneti, conducted by Claudio Scimone. Albinoni, Vivaldi, Rossini, Paganini. Grand Amphitheatre, la Sorbonne (Bookings at the Mairie du Ve, FNAC stores). (Tue).

Orchestre de Paris, conducted by Daniel Barenboim, with Claudio Arrau (piano). Beethoven, Wolf, Boulez. Salle Pleyel (Wed, Thur) (45.63.88.73).

Festival d'Automne de Paris. The festival is inaugurated by a concert version of Karl Heinz Stockhausen's opera Montag aus Licht at the Théâtre des Champs Elysées, to be followed by a cycle of chamber music by Stockhausen at the Opéra Comique. (42.96.96.94, 12.00-19.00, except on Sundays).

Picardy region

The first festival of cathedrals of European music takes place from September 16 to October 2. Britain is the guest of honour for 1988. London Mozart Players and London Choral Society, London Bach Orchestra and London Bach Chorus, Scottish Chamber Orchestra and Picardy's regional orchestra and choir will be performing in the Saint-Quentin basilica, in the cathedrals of Beauvais, Noyon, Senlis, Laon and Amiens and in other churches and chapels of the region.

Amsterdam

Concertgebouw. The Netherlands Philharmonic, conducted by Gilbert Varga, with Karin Lechner, piano. Mozart, Mendelssohn, Schubert (Mon, Tue). Riccardo Chailly, conducting the Concertgebouw Orchestra, with Julia Studebaker (horn). Wagenaar, Hindemith, Bruckner (Wed). (718 345).

Buers (Damrak). The Xenakis Ensemble, conducted by Huub Kerstens, with Harry van der Kamp (bass) and Suzanne Flowers (soprano). Wagemans, Kerstens, Xenakis (Tue) (27 04 66).

Utrecht

Vredenburg. The Netherlands Philharmonic, conducted by Gilbert Varga, with Karin Lechner, piano. Mozart, Mendelssohn, Schubert (Wed, Thur) (31 45 44).

Rotterdam

Doelen. The Hallelujah choral society with the Randstad Orchestra and soloists under Rien Verbeek. Bach, Beethoven, Mendelssohn (Wed) (413 2490).

Vienna

Violin recital, with Tibor Kovac (piano), Peter Holecek. Bach, Franck, Ysaye, Messiaen, Paganini. Musikverein (Mon) (65 81 90).

Gidon Kremer and Philip Hirschhorn (violin), Vladimir Mendelssohn (viola), David Geringas (cello). Schulhoff, Janacek. Konzerthaus (Mon) (72 12 11).

Wiener Kammerorchester with wind players from the Chamber Orchestra of Europe. Schulhoff, Janacek. Konzerthaus (Tues) (72 12 11).

Vienna Mozart Orchestra in historical costume. Mozart. Sofiensale (Wed) (62 71 920)

Artis Quartett. Mendelssohn, Berg, Schumann. Musikverein (Thurs) (65 81 90).

Munich

Orpheus Chamber Orchestra, with Heinz Holliger (oboe) and conducting. Bach, R.Strauss, Carter, Wagner, and Mozart. Philharmonie im Gasteig (Mon).

Frankfurt

Alte Oper. Herman Prey leider recitals with pianist Leonard Hokanson. Schubert. (Mon, Tues).

New York

New York Philharmonic, conducted by Zubin Mehta. Webern, Schönberg, Schubert. Avery Fisher Hall, Lincoln Center (Mon).

Philadelphia Orchestra, with Riccardo Muti conducting. Viktoria Mullova (violin), Alexandrina Milcheva (mezzo-soprano), Choral Arts Society of Philadelphia directed by Sean Deibler. Shostakovich, Prokofiev. (Carnegie Hall) (Tue) (247 7800).

Philharmonia Virtuosi, conducted by Richard Kapp, with Stephanie Brown (piano). Chopin, Schubert, Haydn, Rossini. Town Hall (Tue) (842 1818).

New York Philharmonic, conducted by Zubin Mehta, with Montserrat Caballe (soprano). New York Choral Artists directed by Joseph Flummerfelt. All-Bernstein programme. Avery Fisher Hall, Lincoln Center (Thur) (799 9595).

Washington

National Symphony Orchestra, conducted by Mstislav Rostropovich. Berstein, Haydn, Brahms (Mon). Mozart, Sallinen, Greig (Tue, Wed). All-Tchaikovsky programme (Thur). Kennedy Center Concert Hall (254 3776).

Chicago

Chicago Symphony Orchestra, conducted by Sir Georg Solti, with Rudolf Serkin (piano). Beethoven, Bartok (Wed). Tchaikovsky, Haydn, Bartok (Thur). Orchestra Hall (435 8122).

Tokyo

Moscow Radio Symphony Orchestra, conducted by Vladimir Fedoseev. Moussorgsky, Tchaikovsky, Stravinsky. Showa Women's University Hitomi Memorial Hall, near Sangenjaya (Mon) (780 5400).

André Previn conducts the Los Angeles Philharmonic Orchestra. Brahms, Shostakovich (Mon). Berlioz, Strauss, Shostakovich (Tues). Suntory Hall (407 9248).

Alfred Brendel (piano). Mozart, Brahms, Liszt. Showa Women's University Hitomi Memorial Hall, near Sangenjaya (Tues) (353 2242); and with the Tokyo Philharmic Orchestra, conducted by Wilfried Boettcher, Suntory Hall (Thurs) (258 9696).

Traditional Japanese Music. Tokuyama Takashi (shakuhachi). Casals Hall (Thurs) (294 1229).

La Scala Orchestra, from Milan, conducted by Lorin Maazel. Rossini, Puccini, Verdi. Tokyo Bunka Kaikan (Thurs) (725 8888).

SALEROOM

Opium at a modest price

The new saleroom season eases into second gear this week with sales which promise high interest rather than exorbitant prices. In fact some of the estimates placed on lots in Sotheby's auction of books and manuscripts tomorrow seem positively modest.

For example the first part of Thomas de Quincey's journal, "Confessions of an English Opium Eater," with the author's manuscript stained with laudanum, carries a top forecast of only £18,000, while the manuscript of one of Charles Lamb's most famous essays, "The Praise of Chimney Sweepers," is expected to fetch around the same sum.

The highlight of the auction is two manuscripts in the hand of Jane Austen, one the major portion of her unfinished novel "The Watsons," the other entitled "Volume the Third" and containing two short early novels, written when she was in her teens. Both items come from her descendants and should exceed their £80,000 high estimates.

A fragment of a love story written by Napoleon when he was in his twenties, and based on his experiences, should also top its £30,000 estimate, while an eleven page letter on scientific matters written in 1638 by René Descartes is expected to make £50,000. All the items on offer have an excellent provenance: they were acquired, on Sotheby's advice, by the British Rail Pension Fund, which is selling off its 1970s investment in works of art.

Christie's has an attractive house sale starting today. It is disposing of the contents of the very pretty 17th century Lyegrove, near Badminton in Avon, which was bought in 1984 by Christopher Cowlin from the Westmoreland family, of Sotheby's fame. He restored Lyegrove and furnished it with purchases from recent country house sales.

For example, an early George III mahogany side table, with a 17th century Florentine pietra dura top, was part of the 1978 Waterinbury Place Kent dispersal. Then it sold for £4,180: now it should make £30,000. There are also items from Belton and Elvedon.

Antony Thorncroft

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Complacency at the G7

At the annual meetings of the IMF and World Bank in 1987 the finance ministers of the Group of Seven industrial countries felt able to congratulate themselves on the success of the Louvre Accord. As if to mock their pretensions, the last three months of 1987 saw the crash in world stock markets, a sharp fall of the dollar and forebodings of another 1929. Then, in 1988, there was the long-awaited turnround in US trade, a recovery in the dollar and a surge in world economic growth.

Like bronco-busters, the authorities of the main industrial nations take pleasure in staying on. But staying on is one thing; taming the beast is another. Unsurprisingly, this is precisely the claim made in yesterday's complacent statement from the G7. On global macroeconomic policy it concludes that "the process of policy co-ordination among the major industrial countries is achieving the common objectives of reducing imbalances and sustaining widely shared non-inflationary growth".

In its World Economic Outlook the IMF projects economic growth in the industrial countries in 1988 at 3.9 per cent, 1.1 percentage points higher than last April. Economic growth in the US is now forecast at no less than 4 per cent, while Japan's growth is projected at 5½ per cent.

Improved picture

The current account picture of the major countries has changed for the better. The US current account deficit in 1988 is now projected by the IMF at $129bn. The corresponding figures for the surpluses of Japan, Germany and the Asian newly industrialising economies are $78bn, $45bn and $25-30bn, respectively. Unfortunately, little further improvement is expected for 1989, one reason being the strength of the dollar in 1988.

What explains these developments? In 1987 monetary policy of the major industrial countries outside the US was driven by huge interventions in support of the dollar and, in the case of Japan, there was fiscal stimulus as well. These interventions (along with the monetary loosening after Black Monday) have had a powerful effect on demand in 1988. Meanwhile, the improvement in net exports has become an important source of demand in the US. In the face of buoyant overall demand, the Federal Reserve has moved to raise interest rates, so helping to strengthen the dollar.

As in the late 1960s, the combination of a weak currency and fiscal deficits in the US is creating a global economic expansion. One might fear that such an expansion will end in higher inflation, followed by a disinflationary recession. That inflation has not been a major problem so far reflects *inter alia* the weakness of commodity prices. The authorities in the industrial countries can allow the expansion to continue just because it has brought negligible benefit to commodity exporting developing countries.

Incoherent objectives

In short, the G7 has managed to come through another exciting year, but the fundamental objectives remain incoherent. Thus the G7 statement calls for "co-operative, mutually supportive efforts to remove remaining barriers to international financial flows." The only way to combine capital market liberalisation with a tight curb on net international capital flows is for fiscal policy to offset national surpluses (or deficits) of private savings over investment. An alternative approach would be to live with large net capital flows, but that would require a much more disciplined and predictable exchange rate regime than at present.

The major members of the G7 (above all the US) have very little fiscal policy flexibility and continue to judge monetary policy by the achievement of domestic economic objectives. Meanwhile, the G7 countries desire both freedom for capital flows and exchange rate stability. This combination is unworkable in the long run. The riders may have managed to stay on until after the US election, but it is the complacent who are most likely to fall off in the end.

Southern Africa peace hopes

THE UNPRECEDENTED level of diplomatic activity currently under way in southern Africa holds out the prospect of peace in a region debilitated by conflicts for over two decades.

The sabre-rattling in Pretoria, and the build-up of Cuban forces in southern Angola, underline the fact that the odds are against success. But these disquieting military developments also underline what is at stake. It is the prospect of further upheaval, affecting directly or indirectly over 60m people, that has brought together the super powers, and the main players in the area's three wars.

At the heart of the activity is the US-chaired negotiations, conducted with the backing of the Soviet Union, seeking independence for Namibia and the withdrawal of foreign troops from Angola, and due to resume in Brazzaville this week. Over the past few days Mr Javier Perez de Cuellar, the UN Secretary General, has been talking to leaders in South Africa and Angola in an effort to allay the fears and suspicions of both sides.

At the same time, a meeting between President Kenneth Kaunda of Zambia and President P.W. Botha of South Africa may be on the cards, following up an encouraging development earlier this month. In a move which marked an apparent *rapprochement* between their two countries, Mr Botha held talks with Mozambique's leader, Mr Joaquim Chissano, and pledged South Africa's commitment to a non-aggression pact signed in 1984, but which failed to end Pretoria's support for Mozambican rebels.

Forceful role

Also on the scene, and playing a more forceful role than in the past, is Britain, a supporter of the Government of Mozambique. It sees the country as pivotal in the region, both as an alternative trade route to South Africa and as a test of Pretoria's real intentions.

Sir Geoffrey Howe, the Foreign Secretary, used his recent visit to Mozambique to reinforce Britain's backing for the efforts by black states to reduce trade and transport dependence on South Africa, and to urge Pretoria to end its destabilising activities.

In a gesture which could not have been lost on President Botha, Sir Geoffrey visited a town on the Limpopo railway linking Zimbabwe to the Mozambique port of Maputo, and located in an area hit by rebel activity. He announced a further £15m grant towards the rehabilitation of a line protected by British-trained units of Mozambique's army.

Thatcher talks

In the most forthright terms yet used by a British minister, Sir Geoffrey urged Pretoria to end its support for the rebels, and to grasp the nettle of domestic reform.

A further piece in the diplomatic jigsaw is laid on the table this week, when Mrs Thatcher meets President Robert Mugabe of Zimbabwe, perhaps the most sceptical of all black southern African leaders about Pretoria's intentions.

The differences between the British Prime Minister and Mr Mugabe over the merits of sanctions against South Africa remain as sharp as ever. But Mrs Thatcher can, at least, point out that a regional settlement could be within reach, in which a series of *de jure* or *de facto* non-aggression pacts between black states and Pretoria plays a critical part.

The negotiations in Brazzaville still have two major hurdles to overcome: the wide gap between South Africa and Angola over the timetable for the withdrawal from Angola of some 50,000 Cuban troops, a condition Pretoria has set for Namibia's independence; and the need to bring about a reconciliation between the Government of Angola and the Unita rebel movement led by Mr Jonas Savimbi.

No one underestimates the difficulties, but the minds of the negotiators will surely be concentrated by the high price of failure. Mr Mugabe can rightly point out that even if the regional peace package is implemented, it does not directly tackle the problem of apartheid. But it could help create an environment in which Pretoria can devote its energies to its domestic crisis, and in which all parties in South Africa make fresh efforts to create a just society.

Christopher Parkes looks at the success of heavy-duty liquid detergents

Battle for the washday lead

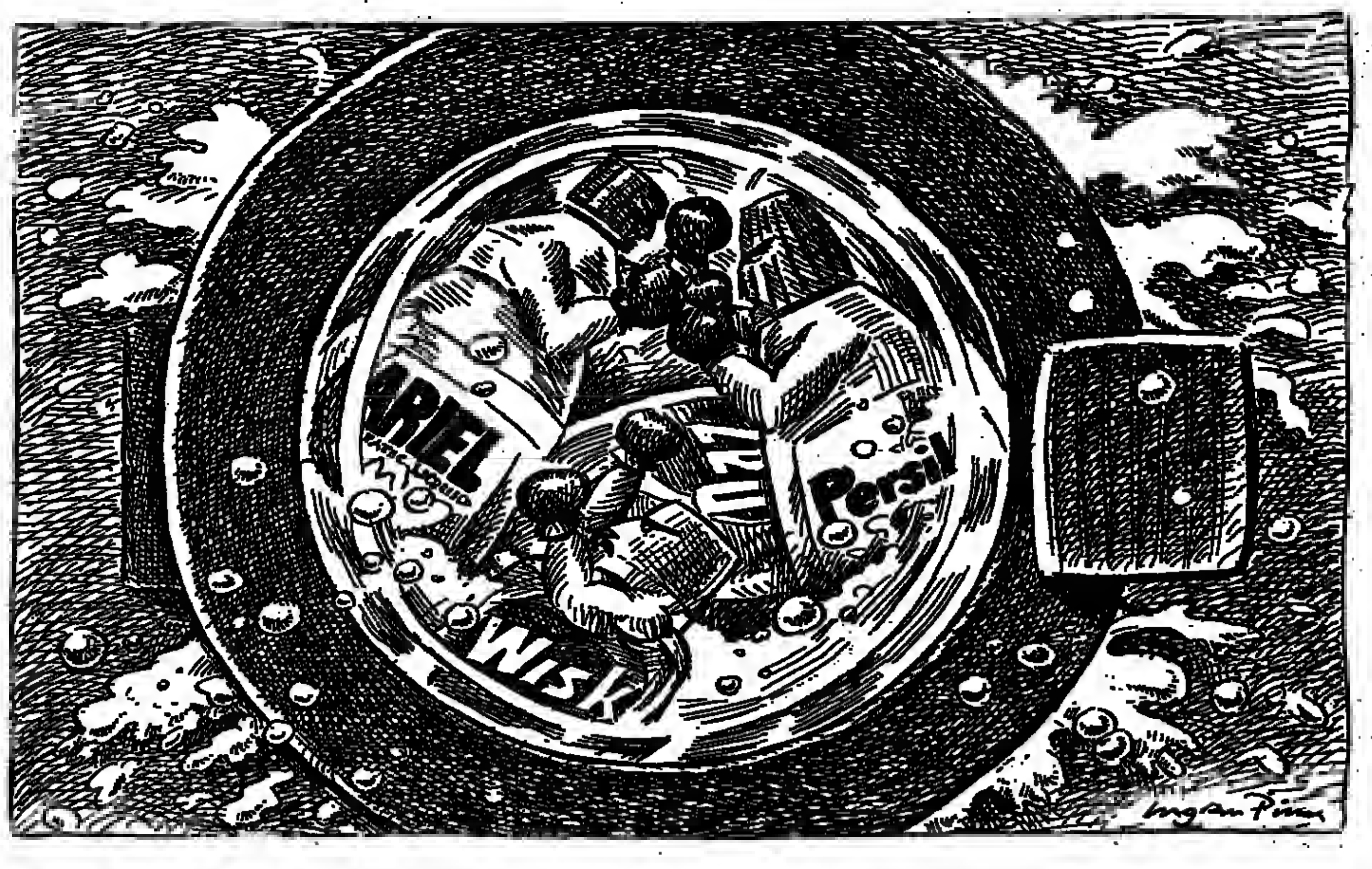
Britain's longest-running soap opera – the blood, sweat and understains saga which started in the 1920s when Procter & Gamble's green Fairy arrived to challenge the washday supremacy of Lever Brothers' yellow Sunlight bar soap – has erupted into scenes of unprecedented aggression and extravagance.

At issue is market leadership in heavy-duty liquid detergent – a new grade of liquid detergent used for washing clothes. It is the most revolutionary launch in the industry since 1950 when P&G's Tide, the first synthetic powder, was introduced to take on Lever's Persil.

In the latest attack, Lever launched Persil Liquid at the end of July and spent £1.8m advertising it in its first month on the shelves. Considering that average monthly spending on all 12 branded washing products on sale in Britain last year was a mere £4m, there could be no clearer indication that there is a war on.

This is promotion on the scale and in the style of the US market, where Unilever (Lever's parent), P&G, Colgate and Clorox routinely disburse millions of dollars in the hunt for market share.

P&G and Lever, which share 86 per cent of the £500m low-suds, heavy-duty detergent business in the UK, are also digging deep into their capacious bag of marketing tricks. Stunts include free watches with Liquid Ariel, £2 cash back for two Wisk labels, and the liberal application of the Bogof – Buy One, Get One Free – principle. "I've never seen so much product given away," says David Lang, analyst at Henderson Crosthwaite.



National market shares, 1987

Country (size of market)	Market share(%)
W.GERMANY ($750)	
Lever	16.5
P&G	19.5
Henkel	20.0
FRANCE ($800)	
Colgate	16.0
Henkel	19.0
Lever	28.0
P&G	30.0
UK ($820)	
Lever	43.0
P&G	43.0

* Balance of market share: other brands plus own label
Source: Henderson Crosthwaite

There will be more. According to Jean-Paul le Courant, Lever's marketing director, the bombardment will continue. "We certainly need six months of very heavy promotion to reach the level we want," he says, promising lots of free samples until Persil Liquid is market leader.

He claims the product has captured 20 per cent of the market within a month, and the sales graph is still heading upwards. Dick Johnson, P&G's marketing services director, challenges this, producing figures from the Nielsen stores monitoring service which suggest that Persil's share of volume sales has virtually stopped rising.

The tally from stores fitted with electronic checkout scanners for the week ending September 5 shows Ariel Liquid with 12.9 per cent of all heavy-duty detergent sales, including powders; Daz Liquid with 5.4 per cent; Persil Liquid with 7.2 per cent and Wisk with 3.9 per cent. At its peak, Johnson claims, Wisk had almost 9 per cent.

The market is growing at an extraordinary pace. Since Lever's Wisk appeared in September 1986, stealing a march on the competition, liquids have come to account for 26 per cent of heavy-duty sales from all outlets, according to Dr Malcolm Shaw, development controller at Port Sunlight, the Merseyside family seat of Lever's detergent dynasty. Even more surprisingly, the series of launches has expanded the market overall by 14 per cent in the 52 weeks to July – before the launch of Persil Liquid. Before the arrival of liquids, the detergent business had been growing by about 3 to 5 per cent a year.

In only two years Britain has developed into the second biggest market in the world for these new products, topped only by the US, where they have around 35 per cent of sales. P&G and Lever agree on the reasons for this: increased affluence, almost daily use of the washing machine in most homes at lower temperatures (90 per cent of all washes are done at 60 deg C or less), and demand for products deemed gentle on coloured clothes and natural fabrics.

Liquids have been available on the Continent since 1982, but have made relatively little progress. In France, where pre-wash soaking is still popular, and the average machine is used only 2.5 times a week, their market share was only 10 per cent last year, compared with 8 per cent two years earlier. However, there are indications that the conflict in the UK is spreading abroad. P&G launched Ariel liquid in France last January against Lever's Wisk and Skip, and the West German detergent group Henkel's Super Croix.

At the last count, according to David Lang, Unilever had 25 per cent of the $4.6bn European market for heavy-duty powder and liquids, compared with 27 per cent for P&G, 15 per cent for Henkel and Colgate-Palmolive's 5 per cent. But the proportions are changing rapidly as competition grows in the liquids sector.

The prime source of this volatility is the recent appearance of P&G's flagship Ariel brand in the main markets. As Mr le Courant points out, the credibility of liquids in the UK has benefited greatly from the appearance of products under familiar and trusted names.

Protracted testing in regional markets with lesser brands is the usual, cautious way in the detergents business. Wisk was on trial in the Midlands for a full year before it went national. Caution was even more necessary with liquids since processing demanded expensive new plant, and no one could predict consumer reactions. According to Mr le Courant, Lever started with Wisk, established for 30 years in the US but unknown in Britain, rather than an established name like Persil, so that if it failed there would be no adverse effect on the main brand.

However, Mr le Courant admits no one was prepared for the success of Wisk. Supplies were rationed for most of its first year, and actually dried up on occasion. Wisk was a runaway hit until P&G piled in with its main brand Ariel Liquid four months after the Wisk launch. By last spring the normally taciturn P&G was crowing that it had 60 per cent by value of UK liquids trade. At the same time it launched liquid Daz, another familiar name.

Lever threw caution to the winds and scrambled to get Persil to the starting gate. There was no time for scientific test marketing. The company's consumer guinea pigs living around Port Sunlight, who routinely try out new products, had been asking when they would be able to test a liquid version of Britain's favourite detergent. "People expected it, and were almost asking for it," said Mr le Courant. That was the extent of the test. Consumers had already shown they liked liquids, they found them less messy to use, they gave good results at low temperatures, and they felt that powders were harsh, he added.

Given the British consumers' appetite for new products, it is perhaps surprising that manufacturers should have hesitated for so long before introducing liquids. This was because they were concerned more about the mechanics of washday. The front-loading washing machine, now installed in more than two-thirds of British kitchens, is a tricky beast. Its tendency to frothiness with conventional detergents prompted the introduction of low-suds products. Fabric softeners were launched to counter the effects of its tumbling action in which laundry is rubbed against the perforations in the drum, "fibrillating" and coarsening fibres. And simple liquids poured into the powder detergent drawer ran away to the sump.

Five years ago Dr Shaw and his Port Sunlight colleagues invented the "Shuttle" to overcome the problem, only to see it grounded by senior management which felt consumers would resent having to fill up a funny little perforated plastic ball and by-pass the familiar drawer. He smiles wrily now at the P&G Arielette, a Shuttle clone, called "the thingie" in Ariel Liquid advertisements, which has proved such a popular hit. "They have made a virtue of necessity," he says with grudging admiration, preening at the technological superiority of Persil and Wisk, products which P&G's Dick Johnson describes as "liquidised powders."

In the event Unilever's massive R&D resources found the solution in the paint industry. Thixotropic paint, which is semi-solid in the can but turns liquid on application seemed to have the necessary properties. The result was a "structured liquid", a viscous cocktail in which sodium tripolyphosphate, an ingredient which gained notoriety as the medium giving ham the water-holding capacity of a sponge, plays a key role.

Mr le Courant believes Persil's technology will win the day. But recent research by the Economist Intelligence Unit (EIU) has shown that consumers have heard the cry "new" and "improved" once too often. They feel advertisements insult their intelligence and are generally sceptical about the lavish promotion budgets associated with the industry.

They say they would much prefer to see the customary 12 per cent of sales spent on detergent advertising passed back to the customer in the form of lower prices. They do not appear to have noticed that prices have fallen considerably in real terms. According to the EIU, 100g of Persil cost exactly the same in 1987 as in 1980.

And despite all their scepticism consumers have given liquids the clearest sign of approval a manufacturer could ask for. The implications of the revolution are far from clear. Mr le Courant takes a cautious view: "I think we shall see more precipitous growth for a while, but now all the main brands are on the market and we expect sales to revert to less vigorous growth in the future." In a couple of years liquids may have stabilised with a 35 per cent share of the detergents market.

However, there may be an element of wishful thinking in such conservatism. As David Lang suggests, manufacturers may have been reluctant to bring out liquids in the first place because they have considerable investments in spray drying towers and other plant needed for powder making. Some manufacturing rationalisation could be needed if the new market grows beyond the 35 per cent mark.

Judging by past performances in the US and Europe, where P&G's share of heavy-duty detergents trade has risen 10 percentage points since 1984, the US company is unlikely to sit back and watch Persil overtake Ariel in the UK. P&G is unlikely to surrender its lead lightly. More liquid variants and hefty promotions are likely. Since BP is already offering own-label liquids incorporating fabric conditioners, the branded leaders are under pressure to follow. Equally, Lever will not allow Persil, in any of its incarnations, to play second fiddle to Ariel in the UK.

Wisk, for example, is likely to be promoted to the hilt. With 1992 in sight it has been nominated as a pan-European brand. Like the recent decision to mark the front of all British and continental detergent packs with a clear "Lever" flash, it is a significant element in Unilever's Eurostrategy.

Despite the vigour of the current campaigns, there has been only one casualty, Breeze, a new Lever powder detergent has just been withdrawn from UK sale after a year's test. With liquids going so well, this was hardly the time to be coming out with new powders, Lever explains. There are unlikely to be others, least of all liquids, if only because neither Lever nor P&G will be willing to write off the vast investments already made.

The thought of brands established at today's prices going the way of those two long-gone labels, Rinso and Oxydol, is simply unthinkable.

OBSERVER

Tough man, Ashdown

■ One way of checking the instincts of British politicians is to see how they stand on Greece and Turkey. Douglas Hurd, the Home Secretary, is a Greece-man. He thinks that Europe stops at the Bosporus and that there can be no question of admitting Turkey to the European Community. Margaret Thatcher is capable of being pro-Turkey, but her sentiments seem to depend on the awards of contracts for the next Bosporus bridge. Paddy Ashdown, the leader of the new Social and Liberal and Democratic Party, is pure Greek.

The first time I met him was at the Geneva Conference on Cyprus in 1974. Turkey had attacked the island and Britain, under treaty obligations, was called on to mediate between the Greeks and the Turks. The British Foreign Secretary at the time was James Callaghan. Ashdown emerged from one of the British missions in Geneva as a Callaghan spokesman.

Callaghan took immediate exception to the Turkish Foreign Minister, a man called Gunes, partly it seemed because he preferred to talk French. The British insisted on calling him Goons. One midnight the conference duly broke down. There was then a terrible thunderstorm around the Palais des Nations. In a dark corner I ventured to say to Ashdown that I thought the British had mishandled the Turks. Such were the reactions of the former commando that the karate chop looked near. The Turks resumed their bombing of Cyprus a few hours later.

Not long ago, I told the story to the now Lord Callaghan. He said: "You mean, Paddy Ashdown was my spokesman in Geneva? I wish I'd known that at the time. I'd have had a word with him about the Lib-Lab Pact. A lot of things under my premiership might have been different."

Not wasted

■ Lloyds Bank has been honouring its most famous literary son, T S Eliot, whose centenary is today. Sir Jeremy Morse, the Chairman, points out, however, that Eliot was not the only modern poet to be employed by the bank. The Welsh poet Vernon Watkins spent his whole career in a Swansea branch, retiring after 40 years as chief cashier, and rejecting many offers of promotion.

"But Eliot," Morse says, "was very much a Head Office man". He worked mainly in the Foreign and Colonial Department where his language skills where particularly useful, and he edited the Bank's Bulletin for which his contributions were all anonymous.

IMF nein!

■ Berlin must be one of the few cities in the world where you can still have a mass turn out for ideological demonstrations with no central thread. It is not so much Rentacrowd as the fact that a lot of its young people do not have too much to do.

So it proved yesterday with the demos against the World Bank and the IMF. The theme was the IMF's repression of the third world. Although there was a hard corps of masked demonstrators, and an equally grim-looking corps of police to match, most of the participants seemed to be enjoying the sunshine. In what may be now the third largest Turkish city outside of Turkey, there was a lot about the plight of the Kurds. Central America

also had more than a look-in.

The in-slogan is the rejection of money. On carnival floats the institutions of Bretton Woods were portrayed as a golden calf, a bloated pig and a grasping octopus. The chant was: "IMF, murderers' meeting!" (which in German happens to rhyme). In a reference to third world debt, one banner said menacingly: "We will pay it all back."

Some observers thought that the demonstrators had a rather more lively grasp of language than the IMF delegates, whose communiqués so far have been about "trends and prospects supportive of balance of payments adjustment requirements."

Not one of the shops along the Kurfürstendamm had its windows barricaded for the occasion, which is more than be said of carnival in Notting Hill Gate.

Ode to Ben

■ There must always be a sneaking sympathy for anyone called Ben Johnson, however you spell the name. The Ben Johnson who won the 100 metres at the Olympics is a Jamaican turned Canadian, and his victory was a triumph of specialisation over versatility.

Carl Lewis, his American rival and quadruple gold medallist in Los Angeles in 1984, does the long jump and the 200 metres as well. Johnson has been fine-tuned by his coach, Charlie Francis, exclusively and single-mindedly on the blue ribbon event. As a result, the man who was once labelled "slow" by his teachers, will become steadily richer. His quiver of endorsements already includes Diadora sportswear, Adidas and Mazda; there will be more to come and the appearance money he can command will soar.

Johnson has had a speech impediment since childhood and sometimes seems inarticulate. His international audiences, however, continue to grow. Last year, within hours of his world record-breaking run at the world championships in Rome, he was invited to see the Italian president, Francesco Cossiga, and the Pope.

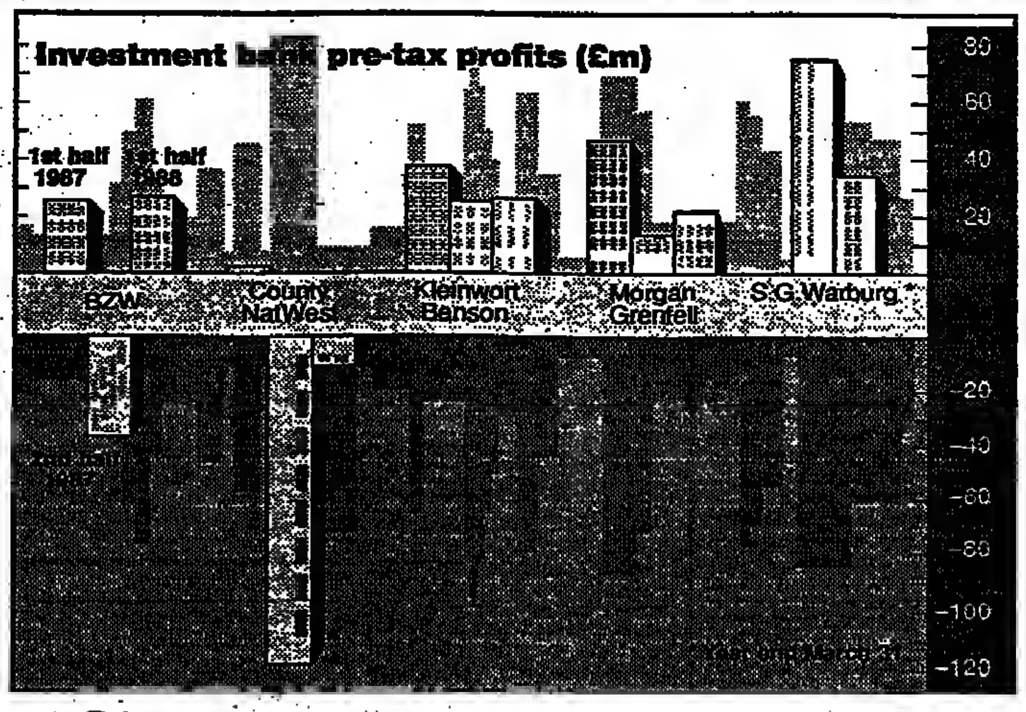
This time, the Canadian Prime Minister, Brian Mulroney, was quick to telephone his congratulations in an exchange that featured prominently on the national television news.

New Left

■ Marxism Today is still the best read on the British left. Recently, however, it has begun to parody itself and knows it. The October issue contains a list of in and out words. For "futurism" you must now say "nostalgia", for "production" "consumption", for "emotion" "affectation" and for "determinism" "the arbitrary". Next month's issue will carry an interview with Edward Heath. That's real nostalgia.

Strategic gambles for the big prizes

David Lascelles on the bruising experience of UK merchant banks in the two years since Big Bang



When Morgan Grenfell recently reported sharply lower half-year results, the losses it had made on its securities business were described by agency reports as "continuable." This was later corrected to "containable." But for many people in the City, it was a slip that touched an uncomfortably exposed nerve. Despite dramatic developments like the record £2.9bn takeover bid by Minorco for Consolidated Gold Fields, activity in the City's securities markets is at its lowest point for several years and all the UK's investment banks are braced for lean times.

Most will be marking next month's second anniversary of Big Bang, and the first of the great October crash, in a very uncelebratory mood. "The market is incredibly flat," says Mr David Peake, chairman of Kleinwort Benson, whose profits tumbled 30 per cent in the first half of this year.

There are big questions on merchant bankers' minds. The first is the matter of survival. Will they be able to get through whatever lies ahead without having to make major cutbacks which might jeopardise parts of their business? Underlying that is the more testing question of whether they have got their strategies right.

None of the City's leading merchant banks will admit to planning big lay-offs or cutbacks in the coming months. Most of them claim to be intending to do the exact opposite: use the slackness in the employment market to pick up new talent, particularly from the foreign-owned investment houses to the City which have been quickest to slash their staff. But quietly, the merchant banks have been shedding less productive employees and reducing perks.

Morgan Grenfell's headcount is 200 below budget, a saving of 7 per cent on its payroll of 3,000 people. Staff at houses with shaky-looking futures have also been trying to join stronger ones. Mr David Band, chief executive of Barclays de Zoete Wedd (BZW), the investment banking arm of the Barclays group, which has emerged as one of the leading players on the City scene, reports that he has received "shoals" of applications from job-seekers.

A tough period will also make it easier to see who are the winners and losers from the restructuring of the City which has taken place in the last couple of years. In particular it will provide a test of whether the big integrated houses, combining merchant banking and securities activities, are necessarily any stronger or better equipped than those with more modest or specialised strategies.

Mixed fortunes have so far attended the four houses which tried to model themselves on US-style integrated investment banks: BZW, County NatWest (part of the NatWest group), Kleinwort Benson and S.G. Warburg. All were formed out of mergers of merchant banks, stockbrokers and jobbers on the theory that a powerful combination of skills was the best way into the big international finance leagues. All four have been badly hit by the slump in the markets, though only County has done dramatically badly by losing £116m last year. But all are determined to press on.

Mr Band at BZW, says "This is not a business where you can be half-pregnant. You have got to do all or nothing." And though BZW's profits are not yet providing a proper return on its capital, BZW is considered by Barclays to be essential to its aspirations to be counted among the world's top banks. Similarly, at NatWest, County will be pressing on despite last year's setback, though Mr Terry Green, chief executive, says "the pace and scale will be revised."

At Kleinwort's, executives also claim to be undeterred, despite the poor results. Mr Jonathan Agnew, director in charge of securities operations, says: "There's a big battle going on over the medium term. You have got to be among the top six brokers in this market if you want to be a major player. There will be few pickings left for the rest."

At S.G. Warburg there is determination to look beyond present difficulties towards long-term goals. At the moment Warburg is earning a return of 13 per cent on its capital, which Sir David Scholey, chairman, says is "well below our long-term aim." But he maintains the market crash and subsequent fall-off in activity have "again demonstrated the need to have a well-balanced group."

Expectation in the City is that all four houses will stick it out, through a combination of pride and sheer determination. Each is considered to have either the financial resources or the market share, or both, to develop a business which will be worthwhile once the markets pick up again.

Morgan Grenfell is expected to undergo a tougher test of will. Mr John Craven, chief executive, is a firm believer in the US model, like Goldman Sachs which he holds up as one of the best examples of an integrated house. "The business will go to the integrated houses. They will win the big prizes," he says.

But unlike the other merchant banks, Morgan was a late starter in equities and had to build it up virtually from scratch. It has only about 3 per cent of the market, which others say is too small to be the foundation for a successful business, particularly since it is running at a loss.

Some competitors think a sustained recession in the markets would force Morgan to close its equity operation and concentrate on its much more successful corporate finance business instead. But Mr Craven is adamant that Morgan will keep at it. "Our approval rating is running well ahead of our market share," he says.

But for the many other merchant banks in the City who chose not to try and become integrated investment banks, the downturn in the markets has been much less painful. Their small exposure to equities has helped protect their profits – and morale – and has not necessarily made them less attractive to their clients.

The striking successes scored by a number of them in the corporate finance field, for example, has challenged the arguments marshalled by people like Mr Craven that only the integrated houses would get the big prizes.

Schroders has only a small presence in the UK equity market (not entirely through design: a venture at the time of Big Bang came to grief when its founders left). But this has not prevented Schroders from building up the most powerful corporate finance business in the City at the present time, judging by its position at the top of the mergers and acquisitions league tables.

Mr Win Bischoff, chief executive, says: "We believe that in the long term the concept of an integrated investment bank as in the US could happen in the UK. But it's not a *sine qua non* at the moment."

Smaller houses, too, claim to have benefited in various ways from the suspicion with which some of the City's investment and corporate customers view the integrated groups. Singer & Friedlander, one of the smallest of the traditional merchant banks, reports that it has picked up a lot of business among smaller companies and private individuals who no longer get any service at the big groups. "We have benefited enormously from the anti-conglomerate mentality" says Mr Tony Solomons, chairman.

He believes Singer is now increasing its share of the corporate finance market again after several years when business migrated to the larger groups. His bank is also attracting private investors "seeking an independent home for their money." But Singer is running much of this business at a loss because of the low level of activity, though Mr Solomons says it is "terrific seed corn for the future."

As has always been the case in merchant banking, there may not be obvious right and wrong strategies. But the market setback is certain to accelerate the shakedown of the City into its post-Big Bang shape and accentuate the differences between integrated houses and specialists.

Mr Craven at Morgan cautions against drawing hasty conclusions, though. "It's too soon to judge who was right. In two or three years you will be able to see," he says.

Empty economic boxes in the IMF Outlook

By Samuel Brittan in Berlin

Visitors to the International Monetary Fund/World Bank conference have been witnessing a second Berlin airlift: the arrival of military police equipment to reinforce the Berlin security forces who have to cope with the anti-IMF threats. The hostility to the official proceedings extends far beyond the violent fringe. A coalition of protest from Greens to Churches has taken a hold over radical opinion not seen since the anti-Vietnam war movement.

But even among those who accept competitive capitalism as the least bad economic system, the mainstream approach to its management based on economic projection has come apart at the international level as it has done nationally.

On the first page of the new *World Economic Outlook*, the IMF staff poses two questions:

- "Will financial markets be willing to finance, at existing interest and exchange rates, the large external balances still in prospect?
- Secondly, is inflation a danger that calls for policy adjustments?"

It is a tribute to the frankness of the IMF authors that they admit they do not know.

In place of all the warnings of recession and downside risks we used to hear so recently, the talk is now of the unexpected "robustness of growth" in the industrial countries now put at close on 4 per cent this year compared with a projection of under 3 per cent as recently as last April. World trade volumes are expected to shoot up by 7½ per cent, some 2 per cent faster than expected in April.

Is this good news for business, job creation and the developing world that sells to Western markets (astonishingly successful in the case of the four major newly industrialising countries)? Or, in the words of the fund's own unanswered question: "Is inflation re-emerging as a significant danger calling for policy adjustments?"

In common with the rest of us, it does not know. It warmly embraces a worldwide rise in interest rates so far this year. It warns that further tightening may well be necessary, but does not say that this is needed now. It is the last of these conclusions that was conveniently endorsed by the Group of Seven finance ministers.

The IMF central forecast is that next year world output growth will slow down to a sustainable rate, but not stop. This is what forecasters tend to say. Now, however, the fund chooses to emphasise the upside inflationary risks.

There are two central problems. One is what demand will do. In a revealing passage, the IMF asks whether the rapid expansion of the world money supply since 1985 has been offset by a permanent change in the velocity of circulation due, say, to financial innovation, or whether the velocity will rebound with dangerous inflationary consequences. The answer is left to the reader.

More interesting is the second question. How fast can demand and output grow without inflation taking off? The fund staff estimates the sustainable growth rate for the US at 2.8 per cent per annum, for Japan 3.9 per cent, West Germany 2.1 per cent and the UK 2.6 per cent. In all cases, even Germany, this is well below the estimated growth rate for 1988, but almost exactly the rate predicted for next year. Moreover, despite high unemployment, fund economists believe that capacity utilisation is at its highest for nearly a decade and do not think there is any margin of slack left to take up.

We can just suck it and see. Or the finance ministers can shift from forecasts to monitoring.

But who really knows? Just as mainstream economists in the 1970s over-estimated potential output growth and thus gave highly inflationary advice, this time they may be under-estimating supply side improvement.

While output, investment and employment in the current long-lasting expansion have out-performed previous upswings, wage inflation is much less. While metal prices have risen by 40 per cent in a year in dollar terms, oil prices have fallen – a further contrast with previous turning points.

We can just suck it and see. Or more pompously the world finance ministers can shift from forecasts to monitoring.

The more serious unknowns are on the external side. The fund staff makes clear its view that on present policies the improvement in the US balance of payments will come to an end and that the current account deficit will drift back from 2½ half to 3 per cent of American gross domestic product – even though the column of figures for 1990-1992 now contains only blanks. The fund has taken a hardheaded view of the federal budget deficit based on voted programmes rather than the problematic Gramm-Rudman Act to reduce it.

But suppose that a new Administration and Congress really do slash the budget deficit? Might there still not be a large current account deficit reflecting private sector behaviour of the kind that has emerged in Britain? And if so, does it matter? The fund's instinctive answer to both questions is "Yes." Indeed, there is a hint that the dollar is overvalued for the medium term quite apart from its upward spike this summer.

But the fund writers acknowledge the other view: namely that investors in countries such as Japan and Germany which have a structural saving surplus may be prepared to finance current payment deficits in low-saving countries for a number of years until their own ageing population puts the flow of funds into reverse.

The inability to crystal-gaze should not lead to a hopeless agnosticism. As the OECD has suggested, a credit-worthiness constraint related to stocks of debt may have replaced the old-fashioned balance of payments arithmetic. (Why Economic Policies Change, Paris 1988).

To carry the thought further: let governments take a view of exchange rates and leave the markets to force a domestic policy correction if the credit-worthiness constraint is breached. You can call this suggestion a return to Bretton Woods, but a Bretton Woods beefed up by much bigger financing facilities on the private capital market, which are the better side of financial market liberalisation.

LETTERS

Farm problem is not one of statistics

From Mr S. Rickard.

Sir, There are strong grounds for rejecting Berkeley Hill's claim (September 21) that farm incomes would not be low in the absence of support.

Incomes from farming are not only already well below average earnings in the UK, but also on a declining trend. Berkeley Hill dismisses official measures of farm incomes because they only consider income from farming. This is hardly surprising: they are primarily aimed at assessing economic conditions and prospects; no more an indicator of living standards than university pay scales.

Unlike the extra-curricular earnings of university lecturers there are some data on the non-agricultural earnings of farmers to the UK. An Inland Revenue survey shows that, in 1984-85, about 50 per cent of farmers had a total income from all sources of less than £6,000 a year. Ignoring the very smallest holdings the average "off farm" earnings for this group amounted to £290; hardly evidence of hidden wealth.

Finally, adequate supplies at stable prices, rather than incomes, remain the principal targets of policy. Price support is now clearly directed at reducing production – with inevitable consequences for farmers' incomes.

That there is a need to control production is beyond dispute, but in a year when the American harvest has been halved by drought I cannot agree that security of supply is only of historical relevance.

If there is a myth, it is that price cuts and selective income aids can guarantee adequate supplies, avoid a rural recession and provide a pleasant countryside. The reality is that Berkeley Hill's preferred solution is anachronistic.

Ever more detailed statistics on farm households are not what is needed. An effective method of directly controlling surplus production is of greater importance.

S. Rickard
Chief Economist,
The National Farmers' Union,
Agriculture House,
Knightsbridge, SW1

Agreement to computerise at Girobank

From Mr E.A. Barlow.

Sir, I am afraid your labour correspondents have been misled by comments attributed to Mr David Wilkinson, group secretary for Girobank of the National Union of Civil and Public Servants (September 21).

It is quite wrong to suggest that a fifth of Girobank's 6,500 staff will be losing their jobs as a result of a new computerised customer account system.

Mr Wilkinson knows that Girobank has a written agreement with its unions, which includes a no-compulsory-redundancy clause in respect of development such as this important computer project. Only recently, management reaffirmed its commitment to that agreement. Arrangements to re-deploy into other areas of the bank, and retrain the 300 or so staff affected by the project, are well advanced.

Girobank's new computerised customer account system has been part of its corporate plan for five years. As with all such developments it has been subject to a formal consultation process with the unions and has formed part of the quarterly management/union meetings which I have chaired and at which Mr Wilkinson, or other representatives of the National Union of Civil and Public Servants (NUCPS), have always been present.

E.A. Barlow
Director of Personnel,
Girobank,
10 Milk Street, EC2

The deficit is in manufactured goods

From Mr Frank Bamford.

Sir, Samuel Brittan is to be congratulated on reminding everyone (September 1) that unemployment remains an great problem. It is clearly correct to say that large and sudden changes in macro-economic policy or external events have drastic effects on employment which take many years to reverse.

But it is somewhat surprising that he does not mention the important structural problems underneath the macro-economic blanket.

The real appreciation of sterling by over 30 per cent in about 1980 was too catastrophic for any reasonable wages flexibility to cushion. Some 30 per cent of manufacturing industry disappeared – particularly companies heavily involved in exports or in competition with imports.

When such a company disappears, so do its business connections and market positions which have often taken decades to build up.

It takes many years and much investment to re-build these. Little rebuilding was done in the years after 1980, when sterling was still overvalued. So export capability was stunted and import penetration facilitated. These are the basic reasons why manufacturing investment has flopped so badly.

It is true that new industries have developed, but they have plainly not replaced the contribution and potential of the old.

It is also true that some of the old ones would have run down anyway – but more gradually, with the opportunity of adjusting to modern conditions.

Is it really surprising that a year or two's boom finds the UK in balance of payments difficulties? At least no one can any longer argue that manufacturing is not important. The deficit that is causing all the concern is, of course, in manufactured goods.

Frank Bamford,
Bamford Enterprises,
9 Malvern Drive,
Altrincham, Cheshire.

Locally led training could replace the Training Commission

From Mr Alan Bartlett.

Sir, Your leader of September 19 was hesitant in its welcome for Mr Norman Fowler's likely plans to replace the Training Commission. This would be justified if all that is intended is punishment of antagonistic trade unions.

However, we would see it as an overdue abandonment of a tripartite approach which has led to a flood of centrally devised, prescriptive programmes washing over local business communities with little recognition of widely varying employment and skills problems in different parts of the country.

We would hope that the UK Employment Secretary has in mind a combination of direct control over overall training strategy, with devolution of substantial powers and funding to local bodies: a style of "tight-loose" management which is not unfamiliar to many large, complex and successful businesses.

This would offer the prospect of a national advisory body which included members far more representative of employers and employees than the Training Commission, with its nominees drawn exclusively from the Confederation of British Industry (CBI) and the Trades Union Congress (TUC).

At local level there are already the makings of a relevant infrastructure to service local training needs. Chambers of Commerce in most cities and towns represent a total direct membership of over 65,000 companies. In recent years chambers have become the largest private sector providers of Government-sponsored training and education initiatives, and have begun to pull these together locally.

US Private Industry Councils (PICs), incorporating "compacts" between schools and employers, look like being a model for our new local bodies. Chambers lead in no less than 19 of our 30 inner city compacts. They have been studying American experience, and one chamber has already started a form of PIC.

There are encouraging signs of effective collaboration between local authorities, colleges, chambers, and other community interests. The demise of the Training Commission should provide a real boost for locally led, more relevant training.

Alan Bartlett,
The Association of British Chambers of Commerce,
Sovereign House,
212a Shaftesbury Avenue, WC2

FINANCIAL TIMES
Monday September 26 1988

By Janet Bush on Wall Street

Tax ruling alters belief on pensions

THERE was a great deal of talk last week about an apparently obscure ruling by the Internal Revenue Service which said that pension funds could sell stocks short without endangering their tax exempt status.

The ruling last month on behalf of an educational pension fund would probably have gone unnoticed if it were not for the assiduous publicity drive by money manager Mr Robert Gordon. He is the president of Twenty First Securities, a company which specialises in short-selling strategies based on a computerised quantative model.

The IRS ruling overturns a widespread belief that pension funds wanting to execute a short sale would find securities borrowed as part of that transaction taxed as unrelated taxable income. A short sale involves the sale of borrowed securities in the belief that their price will go down and they can be bought back at a later date at a profit.

The pension fund which asked for a ruling from the IRS wanted to invest in arbitrage positions involving securities. The IRS said stock loans obtained to permit the arbitrage strategy would not constitute net borrowings by a pension fund because the loans would conform with SEC regulations and would be secured by the fund's cash and Treasury bond holdings.

The IRS ruling does not remove the tax liability on short sales which are leveraged (which involve cash borrowings on top of securities borrowings).

Mr Gordon is cautious about predicting a surge in short selling by traditionally conservative pension funds in the wake of the ruling but does believe there is a market for short-selling strategies, desirable as a hedging technique.

His company runs one money management programme which hedges a stocks portfolio by buying a particular stock in one industrial sector which is regarded as an attractive performer and selling a less attractive stock in the same sector.

He says that his firm's equity portfolio using this programme rose 12.8 per cent last year and not a penny was lost during the crash.

Not many money managers specialise so heavily in shorting stocks. One notable one is the New Jersey-based company Princeton/Newport, the chief officers of which were recently indicted on racketeering charges and securities laws violations.

Mr Gordon hopes that the IRS ruling last month will persuade some pension funds which were reluctant to use this kind of hedging strategy to consider it as a useful money management tool.

He believes that the demise of portfolio insurance, the highly computerised asset allocation strategy heavily used by pension funds before the October crash, leaves the way open for an investigation of other hedging techniques.

Not everybody is convinced that the IRS ruling will make that much difference as pension funds are naturally averse to any strategy which is perceived to be risky.

There is no doubt that pension funds have become more sophisticated in the past few years. For example, they trade much more actively than they used to.

Some pension funds have charters which prohibit short sales and there would have to be a conscious decision to get those charters changed. There are a number of reasons why many pension funds may not want to take up the opportunity offered by the IRS.

Short selling is anathema to many pension fund managers. Firstly, there appears to be a rather emotional view that short selling is unpatriotic.

Secondly, and more substantively, short selling would often involve an unacceptable degree of credit risk for ultra-cautious pension fund managers.

Thirdly, despite the increased sophistication of recent years, many pension fund managers are not particularly confident about using complex money management and hedging strategies. In the last year, those who became converts to portfolio insurance, for example, had their fingers severely burned in the crash.

Mr Gordon argues that more substantial short selling would add liquidity to equities trading, that it is a risk-averse hedging tool and that it doesn't expose pension funds to the imperfect linkages between cash and futures markets as portfolio insurance did.

World Bank agrees Argentine loan

By Stephen Fidler in West Berlin

ARGENTINA and the World Bank yesterday announced they had reached agreement on $1.25bn in new loans.

The loans, which must be approved by the World Bank board were announced yesterday in Berlin by Mr Barber Conable, president of the Bank, and Mr Juan Sourrouille, the Argentine Economy Minister.

Mr Conable will recommend approval to the bank's board of two sector adjustment loans of $700m, to be disbursed by the middle of next year, and announced agreement in principle of sums totalling $550m for two investment loans for low-cost housing and power projects.

Mr Conable was anxious to play down suggestions that the agreement marked an important shift in the relationship between the bank and the International Monetary Fund. The World Bank accord has been announced before an economic programme has been agreed with the Fund, and places macroeconomic conditions on Argentina similar to those that would be expected on a Fund agreement.

Argentina, for example, has agreed to aim for a consolidated public sector deficit of 2.4 per cent of gross domestic product next year, compared with 4.6 per cent in 1988. Bank officials argue that these conditions are necessary or the sector reform programmes simply will not work. But the setting of such conditions is bound to bring the charge that the World Bank has been pushed by the US Administration into taking an unprecedented leading role in the financing while the IMF remains reticent.

There will also be worries among some Western countries that the World Bank accord risks weakening IMF conditionality.

Mr Sourrouille said yesterday that he expected negotiations with the IMF to be concluded in 10-15 days. Argentina, in arrears to commercial banks by more than $1bn, has not yet indicated its private financing needs.

However he said the country could not pay all the interest due to the bank and at one point suggested only half would be payable.

The US and the countries of the Bank for International Settlements, except for the UK, have arranged a $500m bridging loan for Argentina which will be tied to the Bank financings, and which should become available once World Bank board approval is given to the loans early next month.

Bonn may set a premium for Airbus guarantees

By Peter Montagnon, World Trade Editor, in London

THE WEST GERMAN Government has told the US that it may charge an insurance premium for any exchange rate guarantees extended to the Airbus project as part of new financing put in place to secure the involvement of Daimler-Benz, the motor and engineering conglomerate.

Charging a premium would lend a commercial flavour to the guarantees which have developed into one of the most contentious issues in the transatlantic trade dispute over Airbus subsidies. It would be akin to schemes already operating in the world of export finance.

Trade officials who have been following the dispute closely say that, with its proposal, West Germany may have hit on a mechanism for defusing the impasse over Europe's insistence on its right to protect Airbus against exchange rate fluctuations which has so far been fiercely disputed by the US.

The concept of an insurance scheme was not rejected out of hand by Mr Alan Holmer, US Deputy Trade Representative, when he visited Bonn earlier this month. The US is understood to be examining the idea.

Its willingness to accept such a scheme as a means of resolving this part of the dispute would, however, probably depend on the level of the premium being commensurate with the degree of exchange rate protection afforded. If the premium was too low, the scheme could simply mark the introduction of a new and thinly-disguised subsidy.

Even if the US accepts this approach on exchange rate guarantees it is still, however, likely to object to Bonn's current plan to inject some DM1.7bn ($1bn) in separate subsidies designed to cover existing financial burdens.

Mr Clayton Yeutter, US Trade Representative, last week wrote to the European Commission saying that the US would continue to pursue the Airbus issue despite the apparent stalemate into which the dispute had sunk.

In practice, however, Washington has refrained from publicly criticising Bonn's plans for additional Airbus funding. This is under discussion in connection with the possible acquisition by Daimler-Benz of a 30 per cent stake in Messerschmitt-Bölkow-Blohm, Germany's main aerospace company which is responsible for Germany's Airbus share of the Airbus project. These plans have still not been finalised and a further meeting has been set for next week between Daimler-Benz and key government officials.

The US has made it clear that it will only react once Bonn makes a firm commitment to fresh subsidies. Given the time this will take, this means the dispute is expected to lie fallow, at least until after the US election. Meanwhile, the risk that US airframe manufacturers might raise the temperature by filing a formal trade complaint on their own count under US trade law has receded, given the recent flood of orders received by Boeing and the continuing collaboration talks between McDonnell Douglas and Airbus Industrie.

Pressure on Dukakis in campaign's final lap

By Stewart Fleming in Winston-Salem, North Carolina

MR MICHAEL DUKAKIS, the Democratic presidential candidate, is entering the final six weeks of the US election campaign under heavy pressure to seize the initiative from his rival, Vice-President George Bush, who has been in control of the contest and leading in the polls since the middle of last month.

Ahead of last night's televised debate, expected to draw an audience of more than 100m, Mr Theodore Sorensen, a senior Dukakis adviser and formerly one of the most trusted aides to President John F. Kennedy, said he expected the debate to work to Mr Dukakis's advantage. He indicated that Mr Dukakis would aggressively challenge Mr Bush for impugning his patriotism and take aim at the vice-president's judgment.

Mr James Baker, chairman of the Bush campaign, again sought to dampen expectations, saying his candidate "is not a professional debater."

Both campaign officials refused to be drawn into discussing their tactics for an event in which spontaneity and the risk of committing a major blunder have been reduced to a minimum by a rigid format governing the 90-minute debate.

National opinion polls show that Mr Bush enjoys a narrow lead of about 4 to 5 percentage points among people who say they are likely to vote in the November 8 election.

But the most striking characteristic of the polling data is that support for both Mr Bush and Mr Dukakis is so soft. A CBS/New York Times poll published yesterday said a remarkable 37 per cent of likely voters still had no strong preference.

The apparent indifference of so many floating voters to the two candidates has helped to make the campaign one of the nastiest in recent history. Both candidates have liberally distorted each other's records and cast doubts on their rivals' fitness for office.

Mr Bush, however, has had the more successful campaign strategy. He has shored up his support among traditional voters, and in a key region of the country, the South, which has voted Republican regularly in recent presidential elections.

OECD says industrial research policies curb information flow

By Guy de Jonquières, International Business Editor, in London

THE GROWING trend in many countries to make research and development more responsive to the needs of industry risks restricting the free flow of scientific knowledge, according to a report by the Organisation for Economic Co-operation and Development (OECD).

The report also says many governments need to modify their research policies to take account of the rapid increase in international co-operation between academic institutions and business enterprises.

Many government policies were still geared to achieving national scientific and technological leadership. However, those goals were becoming unattainable and governments would find it more productive to ensure that their policies reflected what other countries were doing.

The report also argues that in trying to improve national economic competitiveness, many governments have put too much emphasis on support for innovation and neglected the diffusion and adoption of technology.

The OECD industrial involvement in research has increased sharply worldwide. In the US and Japan, spending by industry on basic research doubled between 1980 and 1986, outstripping the growth of total spending in those countries, and almost 35 Japanese companies have opened basic research laboratories in the past three to four years.

Governments have encouraged this trend by stimulating closer links between industry and universities in an effort to commercialise technology more efficiently.

However, the report strongly disagrees with those governments who believe they can transfer to industry part of their traditional responsibility for funding universities and academic research.

Industry still accounted for only a small fraction of total research spending, much of it for narrow and short-term objectives, and opportunities for basic research in universities were expanding much faster than the available funding.

The report expresses sharp concern that the higher priority given to industry's research needs may impede freedom of access to scientific information.

"Such developments are in sharp contrast to the long prevailing view of scientific knowledge as a kind of 'public good' with the research financed mainly by government and the results immediately available to all.

"The prompt and open publication of basic scientific research and information has worked well and the practice should not be discarded lightly," it says. "An assessment of developments in this area...is urgently needed."

* *Science and Technology Outlook 1988. US$18, £9.50. Organisation for Economic Co-operation and Development, 2 Rue André Pascal, 75775 Paris.*

Gorbachev warns of danger to reforms

Continued from Page 1

Mr Gorbachev exhorted the newspapers to stop citing alarming cases and asserted that conservatives and progressives alike were lying in wait to say "We told you so" if reform faltered.

He even claimed that the left and the right were aligning to "introduce confusion into society and strike at perestroika," and complained that the press itself had split into opposing llberel and couservative camps.

"Today I can tell yon exactly which letters will be published in this journal, and which in that," he said. "Group biases are appearing. And this must be overcome. Publish everything," he commanded. "We need a pluralism of opinions."

Mr Gorbachev, who grew up on a farm in southern Russia, used agricultural metaphors to convey what he called the colossal efforts needed to overcome inertia and turn the Soviet Union into a more vibrant society, economically and politically.

"We all must put on the harness, and pull, pull," he said. "Much remains to be dona to shake the old tree, then to uproot it and grow a new forest and receive fruit."

Mr Gorbachev warned the press against one-sided attacks on hureancrats who have resisted change and, referring to the latest flare-up of ethnic tensions over the disputed Soviet region of Nagorno-Karabakh, he accused the press of forgetting to stress the need for law and order.

"I wanted to say this first of all to you, to people with whom we work, whom we trust and on whose help and support the party depends," he told the editors.

"I am certain that as perestroika deepens and unfolds, we will overcome the difficulties. Having made our choice, we must have enough courage and responsibility to go forward, to achieve what we set out to do."

Mr Gorbachev has met regularly with senior Soviet editors since taking office as party leader in March 1985. Mr Alexander Yakovlev, the Communist Party propaganda chief, accompanied him to Friday's meeting, but his comments were not reported in the press.

Mr Gorbachev said the economic and political reshaping of the Soviet Union was only just getting under way, and new approaches and new people were needed.

In his first public comment on last week's upsurge of unrest in Armenia and Azerbaijan, he said for reform to succeed "there must be order, and law must triumph..."

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	24	75	Dubrovnik	S	24	75	Malta	S	27	81	Rhodes	S	27	81
Algiers	F	26	79	Edinburgh	F	13	55	Manchester	R	14	57	Rio de J'o	F	37	99
Amsterdam	C	17	63	Faro	S	27	81	Manila	F	34	93	Rome	C	27	81
Athens	F	17	62	Florence	S	24	75	Melbourne	C	17	63	Salzburg	C	16	61
Bahrain	S	35	95	Frankfurt	C	16	61	Mexico City	C	25	77	San Francisco	C	19	66
Bangkok	R	31	88	Funchal	C	22	72	Miami	C	30	86	Seoul	F	24	75
Barcelona	S	26	79	Geneva	F	20	68	Milan	S	23	73	Singapore	R	31	88
Beirut	C	29	84	Gibraltar	F	25	77	Montreal	C	18	64	Stockholm	C	13	55
Belfast	C	14	57	Glasgow	R	12	54	Moscow	F	14	57	Strasbourg	C	17	63
Belgrade	C	20	68	Guernsey	D	15	59	Munich	C	16	61	Sydney	F	21	70
Berlin	C	30	87	Helsinki	F	12	54	Nairobi	C	22	72	Taipei	C	22	72
Biarritz	S	21	79	H. Kong	F	27	81	Naples	F	24	75	Tangier	S	28	82
Bombay	F	31	88	Innsbruck	F	14	57	Nassau	C	30	86	Tel Aviv	F	27	81
Bordeaux	C	21	70	Inverness	F	13	55	New Delhi	C	31	88	Tenerife	S	25	77
Brussels	R	19	66	Islamabad	C	29	85	New York	C	24	75	Tokyo	R	21	70
Budapest	C	20	68	Istanbul	F	25	77	Nice	F	23	73	Toronto	F	15	64
B. Aires	C	19	66	Jakarta	C	32	90	Nicosia	F	31	88	Tunis	S	27	81
Cairo	F	32	90	Jersey	D	16	61	Oporto	C	23	73	Valencia	S	27	81
Cape Town	C	17	63	Jo'burg	F	29	84	Oslo	S	16	61	Venice	F	22	72
Caracas	-	-	-	Lima	F	18	64	Paris	C	18	64	Vienna	C	18	64
Casablanca	S	28	82	Lisbon	S	25	77	Peking	S	25	77	Warsaw	C	18	64
Chicago	F	20	68	London	C	18	64	Prague	C	14	57	Washington	R	12	54
Cologne	C	15	59	Los Angeles	C	23	74	Reykjavik	F	03	37	Zurich	F	17	63
Copenhagen	C	15	59	Luxembourg	D	13	55								
Corfu	S	25	79	Madrid	F	34	93								
Dallas	S	14	57	Majorca	S	25	79								
Dublin	R	17	63	Malaga	S	25	77								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

France acts on credit cards

Continued from Page 1

which he has described as "unacceptable".

Controversy over the credit card charges follows hard on the heels of last month's disclosure that French banks had been overcharging their customers for overdrafts.

A court judgment earlier this year found that banks were not entitled to charge more than 3 percentage points above base rate, or 9.6 per cent, unless they had a written agreement with their customers.

Paris decides to alter policy

Continued from Page 1

German views on this point, French officials yesterday were talking of an "entente cordiale" with Mr Gerhard Stoltenberg, the West German Finance Minister.

Mr Karl Otto Pöhl, president of the Bundesbank, at the weekend defended West Germany against charges that its current account surplus was not being reduced fast enough. He pointed out that West Germany was already exporting large amounts of capital to the rest of the world.

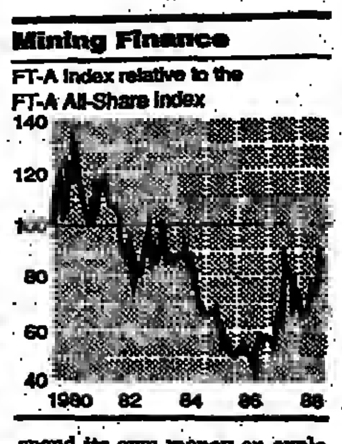
THE LEX COLUMN

Growing pains for global equities

Investors could be forgiven for thinking that the world is a pretty happy place at the moment, were it not for the big hole left in most portfolios after last October's stock market crash. Exchange rates are more or less where they were a year ago, long bond yields in the US and the UK are around half a percentage point lower, and the global economy is enjoying a period of surprisingly robust non-inflationary growth. If this rather dreamy performance can be maintained then share prices deserve to be considerably higher than they are today.

However, the financial markets are understandably suspicious and are unlikely to be taken in by the upbeat rhetoric coming out of this week's IMF meeting in Berlin. The world economy is growing more than a third faster than the IMF's own projections showed back in the Spring, and the worry must be that the 2.8 per cent growth rate pencilled in for next year will prove to be another gross underestimate. If this is the case then the forecast modest increase in the industrialised countries' inflation rate, to 3.3 per cent in 1989, could be equally wide of the mark.

Meanwhile, last week's surprise jump in US durable goods orders for August, raises the question of whether there is a genuine slowdown underway in the US. Until this is resolved the suspicion must be that the authorities will have to tighten monetary policy further, especially if they want to curb an accelerating inflation rate which is already running at its highest level in five years.



Mining finance

Twenty years ago there were 10 mining finance houses listed in the FT Actuaries index. Today, there are just two - RTZ and Consolidated Gold Fields; and even before last week's bid for Gold Fields, there were good grounds for believing that in the UK, at least, the mining finance house is an endangered species. The combination of a prolonged recession in the world mining industry and increasing predatory activity has taken a heavy toll, and even Gold Fields – the oldest of them all – no longer regards itself as a traditional mining finance house.

Most mining finance houses are less than a hundred years old and were set up to funnel British money into the development of the mining industry, first, in South Africa, and then increasingly elsewhere around the world. Traditionally, the mining finance house would spend its own money on exploration and when it had made a discovery it would raise the money via a stock market flotation to develop the mine. This was the only way, for example, that Gold Fields could afford to develop the huge West Wits gold field outside Johannesburg, and its South African affiliate still owns strategic stakes in several of the biggest mines in the area.

It was an ideal vehicle for spreading risk in a rapidly growing industry. However, the advantages of the mining finance house structure are nowhere near as compelling as they once were, partly because there are far fewer new mining projects to be financed, and partly because bank debt has increasingly replaced equity capital as the preferred form of financing. The Carlin Trend, which lies at the heart of the current Nevada gold rush, is being financed in a very different way from the West Wits line.

To survive, the remaining mining finance houses are having to become much more heavily involved as operators of mining projects. Part of the reason is that the recent severe recession in the world mining industry highlighted the disadvantage of being a passive investor in other mining companies. Not only was it impossible to control costs, but they did not have access to the cash flow. Equally important, both Gold Fields and RTZ have on occasions found it difficult to force through changes in the management and strategy of their independently quoted North American and Australian affiliates. As a result they have been following the example of the major oil companies, like Royal Dutch Shell and BP, and wherever possible have been moving towards 100 per cent control of their affiliates.

Whilst there are sound management reasons for pursuing this strategy, it is also motivated by an uncomfortable awareness aware that the ownership of a clutch of easily marketable stakes in other companies makes them vulnerable, especially if the parent's shares continue to trade at a substantial discount to asset value. Even RTZ, which has been far more successful than Gold Fields at making its assets earn their keep, is not invulnerable. Its stakes in Rio Algom and CRA alone are worth nearly half its £3.4bn stock market capitalisation.

Stores

Logic must suggest that Phillips & Drew is right when it argues that the market cannot be both pessimistic about the UK stores sector and optimistic about the prospects for the weakest companies in it, and still pretend to be making sense. Ratings in the sector have suffered substantial damage in recent weeks as the market has taken more and more seriously the prospect of a consumer spending slowdown, on top of already poor profits forecasts. But paradoxically, it has at the same time assigned high ratings to bid stocks like Boots, Storehouse and Sears – implying that the market thinks there are bidders out there silly or clairvoyant enough to predict a brighter future for these companies than for their fellow retailers.

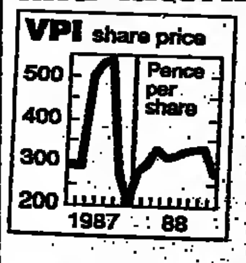
The industry disputes the City's judgement, in this sector as in so many others; nevertheless it is obvious that a number of potential buyers have ended up on a substantially lower rating than they assumed targets, which must be a deterrent to bid activity. Nevertheless, the appeal of the retail sector for the leveraged buy-out specialist is obvious because of the industry's cash flow characteristics; and in terms of cash flow and asset multiples, much of the sector – and not necessarily the obvious bid stocks – must be looking attractive to lbo money, especially from the US. Borrowing costs must be a factor; but the success or failure of a buy-out cannot depend on a couple of points on interest rates.

Phillips & Drew believes, nonetheless, that bidders are likely to prove thin on the ground in the near future. They could be right, especially if the reputation of the UK retailing sector has preceded it with foreign buyers. But if bid rumours are the only game in town – as they are at the moment in the retailing sector – it is a brave investor who decides he does not want to play.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday September 30 1988

INSIDE

Buy now, pay later... and later.. and later..



It is a commonplace of "people" businesses, such as advertising and financial services, that the most important assets walk out of the building every night. So a rash of takeovers has given birth to the phenomenon of the "earn-out," a method of deferred payment for a deal which is meant to bind professionals to their new owner. But a renegotiation of such a contract by the British group VPI has highlighted some dangers. **Page 32**

Learning from the woolly jumper trade

Europe, the source of so many breakthroughs in consumer electronics, has failed to make a go of the business, increasingly seeking protection against assault from the Far East. Guy de Jonquieres argues in the Business Column that one secret of Asian success has been an acceptance that consumer electronics is in many ways closer to a fashion business than a science-based one. **Page 46**

Americans return to the Eurobond market

The Americans are back. US corporate borrowers, many of them long absent from the Eurobond market, have been returning in strength. For the first time in ages the market has looked a more competitive arena for US corporate treasurers to raise funds than at home. But while currency swap opportunities mean that deals can be easily arranged, it is still a moot point whether they can be placed. **Page 33**

Shearson tries a long shot

In between the hamburger and light bulb advertisements on US television at the weekend came a sombrely-toned offering from Shearson Lehman Hutton. Take a long-term view of the markets it said in its efforts to lift the grinding inactivity on Wall street. Investors, however, are faced with many uncertainties, not least the forthcoming US presidential election which is dominating thinking in the bond markets. **Page 34**

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Fairfax fights to keep the family jewels

Chris Sherwell *examines prospects for the Australian media group, following its debt rescheduling*

Mr Warwick Fairfax: Still facing uncertain times following his badly-timed bid just ahead of last year's stock market crash

A YEAR after his audacious but ill-timed A$2.55bn (US$1.99bn) takeover of the John Fairfax media group, 28-year-old Mr Warwick Fairfax is still facing uncertain, not to say worrying, times.

His newspaper titles include Australia's most famous quality dailies – the Sydney Morning Herald, the Melbourne Age, and the Australian Financial Review – and despite the traumas since he took the group private, they have held up well.

But the financial pressure remains relentless. Even last week's long-awaited announcement that the group had reached an agreement with its bankers on refinancing its A$1.4bn debt has not dissipated the underlying uncertainty.

According to banking and broking analysts, cash flows from the group's prime assets remain insufficient to cover interest payments, and this will pose longer-term problems for Mr Fairfax.

"Young Warwick", as he tends to be known, first burst on the Australian business scene only last year, when he decided to buy out the rest of his family and all other shareholders.

It was after his father died that the Harvard-educated and publicity-shy Warwick made his move on the company, apparently at the instigation of his mother but principally because he believed splits within the family were threatening the group itself.

Unfortunately, he launched his bid at the peak of the market, shortly before last October's stock market crash, and he had to deal with skilled takeover players like Mr Robert Holmes à Court and Mr Kerry Packer.

The result was that the bid cost him more than planned, and led to an astonishing rash of asset sales, realising more than A$1bn to reduce the interest burden on A$2.5bn of debt.

Mr Fairfax sold the group's Channel Seven television stations, its Macquarie Radio network, its rural newspapers, a string of magazine titles and such foreign assets as the Spectator in Britain and Ms magazine in the US.

He also sold the group's stake in Australian Newsprint Mills, and closed the loss-making Times on Sunday and Sydney Sun newspapers.

There were major upheavals on the new board, and among senior management and editorial executives. At one stage earlier this year matters became so serious that Mr Fairfax was forced to consider selling off one of the family "jewels" – the Australian Financial Review or, more likely, the Melbourne Age.

The latter plan provoked storms of protest from Melbourne's establishment, and from Fairfax staff.

Among those expressing strong interest in purchasing these assets were the UK publishing magnate Mr Robert Maxwell and, in the case of the Review, Britain's Pearson group, publisher of the Financial Times.

Over the past month, however, the Fairfax group has made two announcements designed to suggest that the worst may at last be over. First, it reported earnings before interest and tax of A$102.5m for the year to June, sharply higher than the previous year's A$78m.

One reason was Australia's buoyant economy, which has helped keep circulation and advertising high. But according to Mr Peter King, chief executive, much of the improvement came in the last four months, reflecting what he called a "structural change in profitability," from the more streamlined operation.

Then last week the group announced that agreement on the "basic terms" of a proposed long-term refinancing package had been reached with the group's two main bank creditors – the ANZ Banking Group and Citibank – and with Drexel Burnham Lambert, the US investment bank.

The package at last confirmed that the Age and Financial Review would remain part of the Fairfax group – at least for now. But details of the deal are still to be settled.

It is presumed that ANZ, with about A$1bn outstanding, and Citibank, with A$500m, will be reducing their exposure, and that Fairfax will issue A$320m-500m of high-yield ("junk") bonds through Drexel.

Even when it is agreed, however, the big question will remain: can the group secure a big enough jump in profitability to meet its interest payments and avoid either further asset sales or a dilution of equity by Mr Fairfax? Independent bankers and brokers familiar with the group's problems doubt that it can.

The group itself is thought to have considered the alternative of an equity injection from an outside party, but has relegated the idea to a longer-term option.

One obvious possibility, ironically, might be Mr John B. Fairfax, Warwick's second cousin, who emerged with a mound of cash from the takeover and purchased the group's rural newspapers for around A$78m.

In the meantime, the group has another unwanted problem on its hands. It is in the midst of tough legal action over the enormous "success fee" of A$100m which is said to have been payable to the troubled Rothwells bank of Perth for Mr Fairfax's takeover.

Entrepreneur Mr Laurie Connell of Rothwells was the key adviser to Mr Fairfax's Tryart company, the vehicle for the takeover. But Tryart has refused payment.

As a result, Rothwells – along with Bond Media, part of Mr Alan Bond's business empire which has since acquired the right to the fee as security for loans to bale Rothwells out of its other financial troubles – is suing. Tryart has counter-sued and is seeking damages amounting to A$160m.

In a takeover which is already one of the most fraught of recent Australian corporate history, the revelations in this case, if and when it comes to court next month, will undoubtedly add yet another dramatic episode to an extraordinary saga.

Getting away with evading the issues

By Anthony Harris in Washington

MR JAMES Baker is one of the very few people who has come out of the Reagan administration with a far bigger reputation than he brought to it, but he is not infallible. As Vice-President Bush's campaign manager, he carefully scheduled the Presidential debate last night to run against the Olympics on television, in the hope of cutting down the audience.

At the last minute, though, NBC, which is televising the games, surrendered to some Congressional arm-twisting, and joined the other major networks in airing the debate; so the candidates got a bigger audience than Mr Baker had expected.

NBC's original lack of interest in the event is easy to understand. This has been a negative, evasive and often dishonest campaign, and the polls show that the voters are getting fed up with it. Mr Dukakis has started talking specifics, but voters still feel they know little about the whole man. Mr Bush has overdone the flag-waving until voters are wondering what he is trying to hide.

The issue which most US pundits have in mind when they accuse the candidates of evasion is the deficit, or rather the twin deficits in trade and in the Federal budget. Both candidates, it is true, say that they have a plan; but Mr Bush's proposal for a "flexible freeze" is generally regarded as only a shade less unconvincing than Mr Dukakis's claim that he could balance the budget through more effective tax collection.

The commentators' gold medal would go to the first man to talk about the "unmentionable" – the idea that budget-balancing might have to be achieved through cutting defence or social security, or by raising taxes, and would probably involve all three.

Mr Robert Strauss, the Democratic *eminence grise* who is now co-chairman of the bipartisan Commission on the deficit, got some big headlines last week by listing these nasty alternatives. His remarks were treated as leaks from the forthcoming report, but were really no such thing.

Mr Strauss was simply pointing out what he regards as obvious: these questions will have to be on the agenda. He quoted the strategy of the bank robber, Willie Sutton, who was once asked by a reporter why he robbed banks. (The people who interview Olympic medal-winners seem to have attended the same school of journalism.) "I do it," Mr Sutton explained patiently "because that's where the money is." Everyone agrees that the money must be found, and soon.

This seems to be as much a matter of fashion as of logic. A few years ago it was almost impossible to persuade Americans that there was any link at all between the budget and the trade balance, as I discovered during a brief spell as a financial consultant.

Now it is equally hard to persuade them that the question is a bit more complicated than that, despite the British demonstration that is is quite easy to run a trade deficit when the budget is in surplus.

The current obsession with the US deficits is a reminder that economists nearly always are obsessed with the problems of the immediate past; the habit is difficult to resist if you spend hour time building economic models.

Polls show voters are getting fed up with a negative, evasive and often dishonest election campaign

Politicians have different priorities, and it is not clear to me that they are being evasive when they are vague about the deficits. The economy is growing, the trade deficit is shrinking, and the problem with the dollar is to hold it down, not to prevent it collapsing. At the moment, the deficits looks like a back-burner problem.

A really bad set of trade figures could quickly alter this view, but the details of the July figures are reassuring. They show not only that imports have stopped growing during 1988, but also that the quite big 9 per cent increase over the first seven months of 1987 has a healthy explanation.

Almost the whole of the increase is to meet the needs of US manufacturers for plant, parts and materials, and they are achieving more than enough export growth to pay the bill. Consumers demands are relatively weak, and the big deficit in cars is finally coming down.

If trade is improving under its own momentum, what about the rumbling crisis in the savings and loans and the Texas banks?

This does look much more threatening; and there is some evidence that the Texas crisis is still getting worse – not least the fact that when the Bass brothers, the shrewdest of the Texas billionaires, finally decided to involve themselves in the S & L rescue operation, they turned to California rather than Texas to find a likely survivor.

The crisis does not seem likely to explode, though, unless one of the rescues already mounted by the Federal Home Loan Bank comes unstuck. Until then, the next President is likely to persist in the present policy of make-do and mend.

In the long run, continued real growth, or an inflationary increase in real estate values, could make the rash loans of the past look sound again. Inflation, which is now generally expected to rise to about 6 per cent next year, will also do something to reduce the real burden of the national debt. The next President can tread water.

There is one crisis, though, which does look likely to remain in the White House in-tray: the debt crisis of the developing countries, especially the Latin American debtors.

This brings us back to Mr James Baker: for he has blocked all discussion of this issue, not only during the campaign, but long before it.

Since Mr Baker has not been starry-eyed over any other issue, he probably does not believe that his Plan will work; but he has strong political and bargaining motives for stonewalling.

In political terms, this is a no-win issue: any plan involving debt forgiveness (which most US bankers now see as virtually inevitable) is likely to be seen as a give-away of US taxpayers' money.

As a bluff, too, his tactics are beginning to look successful. This was once seen as a solely American problem: now Japan, France and the international agencies are coming up with proposals of their own.

If they can be persuaded to put serious money behind their proposals, we are likely to see a new, affable Mr Baker; and we are likely to see one in any case if Mr Bush wins the election. Mr Baker is known to want the top job at the State Department; and in that post, his priorities will change. He will not want to see friendly democratic regimes collapse while he is on watch.

Economics Notebook

Living down to expectations

THE GROUP of Seven meeting lived down to its expectations. No new economic policy initiatives were offered. Wait until after the US election was the message to the markets.

But the communique was not without one surprise.

The brief paragraph on exchange rate stability – the obvious focus of interest in an otherwise anodyne text – was markedly different from the language used in the group's previous three documents.

Back in December, again in April and again in June, the Seven insisted that they would resist both a fall in the value of the dollar or any rise that threatened the trade adjustment process.

Since the first of those communiques the US currency has risen by nearly 15 per cent against the D-Mark, and by and by about 10 per cent against the Yen and the pound.

This weekend, however, there was no reference to a cap on the dollar's value. The US currency was not even mentioned by name.

Instead, the finance ministers and central bankers contented themselves with merely emphasising "their continued interest in stable exchange rates."

The participants insisted that no particular significance should be read into the change. The G-7 was merely expressing its satisfaction with rates more or less where they are.

The US went out of its way to stress that it was not now looking for another dollar rise. Washington's view is that there is no reason to upset the present calm on the markets. It is convinced that even at present exchange rates there is plenty more trade adjustment in the pipeline.

Privately, participants added that there was no agreement to lift the loose reference ranges for the main currencies on which central banks base their intervention – though the possibility was briefly discussed.

The dollar appears to be at the top, or just outside, of the existing ranges against the D-Mark.

At the same time both the Bundesbank and the Fed are said to be standing by ready to resist any substantial further dollar appreciation.

That may be true, but the markets will find it is hard to escape the conclusion that Europe and Japan have gone along with the US in accepting that the dollar's appreciation this year should now be built into the status quo.

The next stage for speculators may be a temptation to test just how far central banks will go in resisting a further rise. As one participant at the G-7 meeting said: "This is all about helping the US Administration in the election".

Warning

The International Monetary Fund is worried about what may happen in the next year and beyond, rather in the next two months.

Though it has been heavily edited to meet the political sensibilities of the US and others, the latest World Economic Outlook leaves little doubt of the Fund's concern about the dollar's appreciation.

Its medium-term projections suggest that the improvement in the US trade position will stall in 1989. More alarmingly, the censored figures behind its gloomy assessment suggest that the US current account deficit will rise to over $160bn by 1991, from $130bn this year.

The Fund's calculations also indicate that the dollar's real effective exchange rate is at just about the same level as in 1980. The problem is that then the US was a net creditor nation and its current account was in rough balance. Now it both has to finance annual current account deficits of $130bn and service a massive build-up in its external debt.

The message from the Outlook is clear: anyone with a perspective beyond the next few weeks or months should be thinking of selling dollars.

Fine-tuning

Mr Nigel Lawson, Britain's Chancellor, spent most of a private meeting with Mr Michel Camdessus, the Fund's managing director, attacking the IMF's view that he should be thinking about the possibility of raising taxes next year.

Britain was not about to resort to the Neo-Keynesian fine-tuning that still seems to infect the Fund, Mr Lawson insisted.

Perhaps not, but the Fund's assessment suggests that Britain's current account gap will not be closed simply by a tighter monetary policy. Even with a substantial fall in the growth rate of domestic demand, the Outlook foresees no improvement in the trade position next year.

The Fund's analysis shows that sterling's real exchange rate is slightly above the levels seen at the start of the 1980s – a time when the current account was moving into substantial surplus as North Sea oil output built up. Now it faces a deficit of around 2.5 per cent of GNP, and income from oil exports is falling.

The starting points are of course radically different, but the implication is that the prescription for Britain may be close to that for the US – a combination of tighter fiscal policy and a further gradual depreciation of the pound.

Philip Stephens

THIS WEEK

THE COURSE of sterling and UK official interest rates could well be decided with the publication tomorrow of trade figures for August.

Dollar traders are also expected to watch closely the progress of talks in Berlin, where financial minister are meeting for the annual meetings of the International Monetary Fund and the World Bank, although they are not expected to produce much.

With the US Presidential election close, there is a feeling in currency markets that the finance ministers of the major countries will not float any new initiatives and will present a united front on issues of economic co-operation and monetary policy co-ordination.

The UK trade deficit in goods and services was £2.2bn ($3.74bn) in July, to take the deficit for the year to £8bn. The median estimate of the August current account deficit, as compiled by MMS International, the financial research company, is for a deficit of £1.4bn.

The July figure was seen by the authorities as indicative of an economy growing even more rapidly than their revised estimates of growth suggested. This, and their concern about the sustainability of the pound's value on the foreign exchanges, prompted an immediate rise in interest rates to 12 per cent.

The view of most financial analysts is that the July current account deficit was erratically high, but there are some forecasters who believe the poor figure could be repeated in August.

The Confederation of British Industry will today release its monthly trends survey for September. Particular attention will be paid to manufacturers' expectations for output and orders, especially exports.

Potentially the most interesting US figures are Thursday's initial claims for unemployment for the week ending September 17, and Friday's new home sales data.

The jobless count fell by 16,000 in the week to September 10 and analysts will be looking to this Thursday's data for a confirmation of their view that this figure was distorted by the Labor Day holiday.

The median expectation for new home sales is a fall of 1.6m in August. This compares with a rise in July of 690,000. Such a fall would encourage the belief of slow-down in domestic demand and lessened inflationary pressures.

US leading indicators for August are due on Friday with analysts expecting a 0.2 per cent rise, compared with a fall of 0.8 per cent in July.

West German inflation figures for September are due this week. A 0.1 per cent rise is forecast to give a 1.6 per cent annual rate.

TOMORROW: US two-year note auction, $8.75bn; Australia, retail sales for July.

WEDNESDAY: US four-year note auction, $7bn; UK, personal income and savings ratio, second quarter; UK industrial and commercial companies, second quarter; Japan, Industrial production for July; Australia, current account, August.

THURSDAY: UK final money supply figures.

FRIDAY: Japan, trade and current account, consumer prices; Australia, August broad money aggregates.

Simple as a concept but the structure must be right

Nikki Tait considers the benefits and drawbacks of 'earnouts'

IN April and May of this year, WPP, the marketing services and advertising agency group, made four modest acquisitions. Although the eventual total cost could be over £80m, WPP actually paid out only about £28m.

If the four companies merely match historic or warranted profit performance, they would bring in over £6m to WPP's annual pre-tax total. The delayed payments, which are dependent on certain profit targets being met, are spread over anything up to a five-year period.

All of which sounds an intelligent deal. But – forgetting the specifics and looking at the broad principle – is it?

Last week, VPI – the UK consultancy group better known by its former Valin Pollen title – showed just how fallible deferred consideration payment structures can be when it announced the renegotiation of future payments on its $100m-plus purchase of Carter Organisation, a US investor relations company.

Although such readjustments are not unknown – others in the agency sector, for example, have re-schemed payment schedules when merging businesses – the VPI changes highlight certain dangers currently implicit in this payment method and points up worries which have niggled analysts and institutional investors for some time.

Deferred consideration payments – usually tagged "earnouts" – are simple enough as a concept. The purchaser puts down a lump sum when the deal is struck, and then makes subsequent staged payments over a specified period. These are usually related directly to pre-determined profit targets.

For obvious reasons, such structures have won particular popularity in "people" businesses – agencies, marketing-related companies, financial services operations and so on. But their use has not been restricted to these areas. In the food sector, for example, fast-growing groups like Albert Fisher have regularly employed earnouts when buying small, often family-owned companies.

There may even be a case for arguing that the popularity of earnouts is being enhanced by dicey stockmarket conditions; acquisitive companies, facing limited cash resources and discovering that paper-backed acquisitions are still difficult, could find deferred structures an increasingly viable option.

The benefits of earnouts are not hard to argue. If the vendor knows that his full payment depends on performance over the coming years, the purchaser should win continuing commitment. "It is," says one company chairman, not given to hyperbole, "about the only way to buy service companies."

Albert Fisher, which claims to have done about 30 "earnout" acquisitions, points to a more subtle advantage. "It has helped flush out problems in companies being acquired," says Mr Stephen Barker, chief executive. If the vendor is wary of agreeing to an earnout, motives for selling may well be suspect.


Reg Valin, chairman of VPI and Stephen Barker, chief executive of Albert Fisher: "It has helped flush out problems in companies being acquired".

So far, so good. The principal problems arise, however, in the way in which earnouts are structured.

The VPI scheme shows up one obvious pitfall. The deal was struck in June 1987, when the VPI share price had been suspended at just under 800p. There was a down payment of $51m, and maximum staggered payments over the next three years of $20.6m, $21.2m and $21.8m respectively. The deal envisaged that 22 per cent of the first instalment, 43 per cent of the second, and 63 per cent of the third should be met in shares. Carter could elect for an even greater share element, although the total number issued to the vendor could not exceed 7m.

Back from suspension, the VPI share price immediately soared to over 500p before slumping in the October crash to under 150p. At its recovered level of 273p, the three maximum payments could be comfortably met within the 7m share issue target (about 6m would be involved). But VPI maintains that a "Catch 22" situation developed; the prospective share overhang and relative dilutive effects compared with cash payments once the price had fallen, was itself a block on any share price recovery. Its revised arrangements envisage that all future payments will be in cash.

That, it should be said, is not the entire VPI story. But it does illustrate the general danger of locking into future paper considerations in highly volatile markets.

The "shares versus cash" question is not the only potential stumbling block. Earlier this year, agency analysts at James Capel pointed to the need for realistic "caps" both on the maximum payment and on maximum interim payments; on the desirability of basing the deferred payments on average profits over a number of years rather than on a single year's total; and on the possibility of varying the multiple paid with the rating of the acquiring company so that highly dilutive deals (if the share price falls out of bed) can be avoided.

The second point, in particular, wins sympathy. As Mr Reg Valin, VPI chairman, pointed out last week, "During an earnout a vendor tends to look at all expenditure in terms of its multiplied effect on target profits. This can lead to an emphasis on short-term profit at the expense of investment for long-term growth."

Perhaps a final point worth considering is the build-up of earnout deals – something which can sneak up on less-than-viligant shareholders. Again, looking at the agency sector, James Capel found one company where almost nine years of average free cash flow had been mortgaged on deferred purchase considerations. In ten companies, the level exceeded four years' worth.

If that sounds a touch startling, it should be added that earnouts are a complex area, and variations on the theme exist – in certain cases, winning more friends. One alternative arrangement is the system by which the buyer takes a majority stake in the target company and then agrees to certain "put" and "call" options on the remaining equity in years to come.

Again, these rights of acquirer and vendor to buy and to sell the remaining shares are usually performance-related. It is, for example, a structure well-used by another food group, Hillsdown Holdings where Mr John Jackson, deputy chairman, stresses the need for such deals to work both ways, but in general feels that it proves quite a good system.

In this complex area, finding anyone who will take up the policing cudgels is no easy task. Whilst few dispute that some highly unsatisfactory deals have slipped through unchallenged, there is far less consensus over how problems should be tackled.

The institutional protection committees – representing the large insurance companies and the pension funds respectively – tend to take the view that earnouts are matters of investment judgment, and best left in the relevent shareholders' hands. Fair enough – but how many shareholders plough diligently through the densest small print, and how many keep careful tabs on a succession of potentially dilutive deals?

Taylor Woodrow appoints Schroder Wagg as adviser

By Nikki Tait

TAYLOR WOODROW, the property and construction company, announced that it has appointed Schroder Wagg as its merchant bank adviser "on future corporate strategy."

In the past Taylor Woodrow has listed Hambros Bank as advisers. Taylor said that it intended "to retain its long-standing relationship with Hambros whose advice and expertise has always been valued highly."

Schroders appointment comes in the wake of stakebuilding in Taylor Woodrow by Peninsular and Oriental Steam Navigation – with the holding now standing at 10 per cent. P & O maintains that the holding is a trade investment and that it has no hostile intentions, but the City has been quick to see potential conflicts should a more aggressive situation develop.

P & O has used Hambros as merchant bank advisers itself in the past – although it pointed out yesterday that S. G. Warburg had also featured – and Mr Charles Hambro, chairman of Hambro, is a non-executive director on both the P&O and Taylor Woodrow boards. The two companies also employ Hoare Govett as stockbrokers.

P & O said that "because the holding is a trade investment" the question of any change in its own merchant bank advisers did not arise.

Haden MacLellan hits £2.17m in first half

FIRST HALF 1988 profit of Haden MacLellan Holdings, industrial holding group, hit £2.17m from turnover of £74.7m.

Mr Philip Ling, chairman, described the result as encouraging and looked for a satisfactory outcome to the year.

The group expected to enter 1989 with strong order books throughout, and with the Drypure paint sludge processing system beginning to fulfill its potential.

Haden MacLellan was formed a year ago from a reversal of the unlisted Haden and Haleworth Holdings into the quoted P&W MacLellan.

Since then it has acquired the Ducost group of specialist engineering contractors and Isovel, specialist air conditioning equipment maker.

Earnings were 2.7p and the interim dividend is raised to 1.5p (0.7p). Comparisons given for the first half of 1987 were turnover £7.56m, profit £390,000 and earnings 2.5p.

Unilever buys

Unilever has acquired Dexstar Chemicals from Hays Chemicals Distribution.

CORRECTION

SAC International

Mr N A Micklefield and Mr J A McLean: In our issue for August 8 1988 we reported, in an article concerning a potential decline in the pre-tax profits of SAC International, that two of its executives had been fired.

We have been asked and are happy to make it clear that the executives referred to were not Mr N A Micklefield and Mr J A McLean, who parted company with SAC International for entirely unrelated reasons.

Meyer asserts bid logic

By Ray Bashford

MEYER International is supporting its £177m hostile takeover offer for Travis & Arnold with the claim that the combined group would form the largest timber and builders' merchants group in the UK with domestic sales of over £850m.

In Meyer's offer document, Mr Oscar DeVille, the chairman said that the bid offers "considerably" greater industrial logic than the proposed merger with Sandell Perkins.

Travis & Arnold and Sandell Perkins announced a £218m recommended merger earlier this month. Meyer announced its offer two days later after having previously failed to win board approval for a link-up.

Mr Tony Travis, chairman of Travis & Arnold immediately rejected the Meyer bid as a "panic stricken attempt to sabotage the merger" (with Sandell Perkins).

Youghal jumps to I£0.33m

Youghal Carpets (Holdings), County Cork-based carpet maker, which was taken over by Coats Viyella last year, reported a jump in interim pre-tax profits to I£331,000 (£283,000) against I£117,000.

For the six months to June 30 turnover rose from £22.99m to £23.01m. Directors said the Irish market had been depressed and although trading in the UK had been satisfactory margins in the US had continued under pressure due to the weaker dollar.

Earnings fell to 0.2p (0.5p) per share, and there is no dividend because of the £14.5m deficit on distributable reserves, the directors stated.

Rescue package for Imtec as losses continue

By Clare Pearson

A £4.7m financial rescue package has been put together for USM-quoted microfilm equipment manufacturer Imtec Group. The company has also announced a pre-tax deficit of £1.64m in the 12 months to end-June, its fourth year of losses.

The deal, which will treble Imtec's issued capital, involves a group of investors led by the venture capital arm of British & Commonwealth taking a majority stake in the company, and Bolton House Investments, a specialist in small company finance, accepting the conversion of £1.8m worth of debt into equity.

Mr Brian Lacey, 45, described as a specialist in indnstrial psychology, is to take over as chief executive to spear-head a rationalisation programme. Mr Gerald Frankel, 66, will retire as chairman.

Smurfit purchase

Jefferson Smurfit has bought almost 20 per cent of PCL Industries, a Toronto plastic products and furniture manufacturing group, for around C$8.5m. The seller is Unicorp Canada.

Kitty Little setback

Taxable profits of Kitty Little Group, USM-quoted consumer goods marketing company, declined from £82,000 to £53,000 in the six months to July 31.

Turnover increased to £1.28m (£1.17m) but earnings per 5p share fell to 0.4p (0.7p). A maiden interim dividend of 0.5p is declared.

Rentokil £3m acquisition

RENTOKIL, the specialist timber preservation, pest control and damp proofing company, announced that it had reached agreement for the acquisition of Metropolitan Office Machines for a maximum of £3.27m, payable in cash or loan notes. The agreed price is subject to the accounts to October 31 1988.

Metropolitan has a turnover of about £4m in the sale, rental and servicing of photocopiers and facsimile machines in London and the Home Counties.

The takeover of Metropolitan follows the acquisition in June of Shire Computer & Services Group, which covers Birmingham and the West Midlands.

Mr Clive Thompson, Rentokil chief executive, said it was a logical move in broadening the base of the group's business. Rentokil's contracts for existing office services will help accelerate the growth of Metropolitan, he said.

Highcroft ahead

Earnings at Highcroft Investment Trust improved to 3.4p in the half year ended June 30 1988, from 3.15p, and the interim dividend is raised to 1.2p, against 1.1p.

Dividend and interest received moved up to £77,000 (£72,000). Part of that was due to funds being accumulated in anticipation of a large future purchase.

Profit before tax came out at £88,000 (£84,000).

Waterman's £3.8m

With pre-tax profit at £3.78m for the year ended June 30 1988, Waterman Partnership beat its May flotation forecast of £3.6m and the previous year by £1.94m.

Earnings were 13.9p (6.8p). There is a special final dividend of 1.5p.

Work done by this consulting structural and civil engineer rose from £8m to £10.37m, and the current year started well with a record order book.

Parkdale £1.8m growth

By Ray Bashford

PARKDALE Holdings, the property development group headed by Sir Peter Parker, the former chairman of British Rail, has acquired the majority of the Archerfield Estate, 22 miles east of Edinburgh.

The 500 acres have been purchased for an initial payment of £1.8m with a further sum to be paid after receipt of detailed planning consent. The company has an agreement to purchase a further 160 acres.

Parkdale intends to develop the land into two championship standard golf courses, a hotel and a leisure complex. Archerfield House will be restored to form the centre piece of the hotel development.

The cost of the development is expected to reach about £50m and Parkdale will be carrying out the development with joint venture partners.

Tarmac lifts stake in Ruberoid

Tarmac, has increased its stake in Ruberoid, the roofing materials group for which it is offering £141.3m in cash. The construction and building materials group has now received irrevocable acceptances of its recommended bid representing 20.8 per cent of Ruberoid's shares.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Albany Inv. Tst., Allied Partnerships, Ash & Lacy, Carbo, Computer People, Malaysia Mining, Menzies (John), Metalrax, Rutland Trust, Steetley, Sumit, Turriff Corp., Watts, Blake, Bearne.

Finals- FII Group, Lloyd Thompson, MAI, Parker Knoll.

FUTURE DATES

Interims-	
ATA Selection	Sept.27
Beattie Service Group	Oct. 11
Clogau Gold	Sept.27
Floyd Energy	Oct. 5
Foresco	Sept.28
Harding Group	Oct. 4
Harrisons & Crosfield	Oct. 5
London & Edinburgh	Oct. 10
Rickmansworth Water	Sept.27
Scott & Robertson	Oct. 3
Silkolene Lubricants	Sept.28
Top Value Inds.	Sept.30
Finals-	
Lysander Petroleum	Sept.27
Portland Hldgs.	Oct. 12
Tyzack (W.A.)	Oct. 4

SHARE STAKES

Changes in company share stakes announced recently included:-

Archimedes Investment: Kleinwort Barrington High Yield Trust acquired 45,000 income shares, bringing holding to 135,000 (11.02 per cent). Exmoor Dual Investment Trust bought 80,000 income shares (6.5 per cent); also holds 50,000 capital shares (4.1 per cent).

CAP Group: Lazard Brothers on behalf of CAP Gemini Sogeti acquired a further 750,000 shares, increasing stake to 14.9 per cent.

F&C Enterprises: Equitable Life Assurance has acquired further 3.35m ordinary and holds 14.33m (16.47 per cent).

Hampson Industries: E.L.R. Latimer, director, allotted 167,708 ordinary at deemed price of 76.15p and now holds 4.2m (10.1 per cent). B. Wronski, director, allotted 310,075 at 76p and owns 887,934 (2.1 per cent).

Harvard Group: Interest of Mr Wilmot, director, increased by 14,500 shares, bought at 25p, to 9.66m.

Hicking Pentecost: Hemsley Securities purchased for Standard Financial Markets, acting as agents, 500,000 ordinary (over 5 per cent) at 72p from Barclays de Zoete Wedd. Telfos Holdings interested in 905,000 ordinary (14.9 per cent).

Printech International: Brian Stokes, director, disposed of 125,000 ordinary (2.1 per cent) at 170p, reducing holding to 5.83m (25.6 per cent). Chris O'Kelly sold same number at same price, and reduced his holding to 5.48m (24 per cent).

Stonehill Holdings: Dr A. Marwan and funds under his management beneficially own 1.8m ordinary (9 per cent).

Takare: Singer and Friedlander Group held 1.48m shares (16.997 per cent) and investment portfolios managed on a discretionary basis held 146,473 (1.678 per cent).

Vantage Securities: Jupiter Tarbutt bought on behalf of discretionary clients 50,000 ordinary, making 849,000 (28.3 per cent)

Warnford Investment: Sebba Trust Investment disposed of 800,000 ordinary (8.33 per cent) to Sebba Holdings, making a total of 3.63m (37.78 per cent).

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

TVS Entertainment 7.4% Pref. shares (Section: Leisure).

Tamaris (Industrials).

Zurich Group (Property).

FINANCIAL TIMES STOCK INDICES

	Sep. 23	Sep. 22	Sep. 21	Sep. 20	Sep. 19	Sep. 16	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs.	87.16	86.97	87.01	87.07	86.50	86.62	91.43	86.28	127.4	49.18
Fixed Interest	96.21	96.00	96.00	95.67	95.62	95.61	98.67	94.14	105.4	50.53
Ordinary	1446.8	1440.7	1443.8	1429.9	1418.6	1422.5	1514.7	1349.0	1926.2	49.4
Gold Mines	164.6	162.7	165.2	168.1	164.4	173.8	312.5	162.7	734.7	43.5
FT-Act All Share	927.60	925.92	929.50	918.57	912.59	915.49	978.58	870.19	1238.57	61.92
FT-SE 100	1792.4	1788.7	1796.8	1772.1	1759.9	1766.7	1879.3	1694.5	2443.4	986.9

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Banker tight-lipped over Minorco deal

THE EUROMARKETS were buzzing last week with speculation about the latest piece of lucrative takeover financing to come along – a syndicated loan for Minorco, the Luxembourg-based investment vehicle of the Oppenheimer South African mining empire.

Morgan Grenfell, Minorco's investment banker, is unusually tight-lipped about the deal and will say no more than that financing is in place to complete the company's £2.9bn ($4.8bn) bid for UK-based Consolidated Gold Fields.

Privately, the loan is estimated at about £1bn.

But bankers said that those in the deal were probably anxious to keep their role away from the public eye. Lenders to South Africa have frequently watched customers and investors desert them in droves once their activities are spotlighted.

Indeed, it was the revulsion of the American public for apartheid that triggered South Africa's banking crisis in 1985 and forced it to declare a moratorium on debt repayments. UK banks, too, have suffered for their business dealings with South Africa.

Speculation about Minorco's lenders centres on Japan, which is now South Africa's biggest trading partner and whose banks are generally less squeamish about dealings there.

Also, because of their big gold business, Swiss banks have generally retained their ties with South Africa.

Meanwhile, three Canadian borrowers, following on the heels of a successful $1bn loan for Canadian Pacific several weeks ago, are planning to tap the market with note-issuance facilities. Significantly, all the Canadian borrowing facilities are for maturities longer than five years.

While some may actually have preferred commercial paper programmes, Canadian withholding taxes are exercised on investments shorter than five years. Therefore, while note issuance facilities have lost their lustre for other borrowers, Canadians still find them attractive.

Air Canada is said to be seeking a $500m seven-year note issuance facility with a dealership group including a leading US bank, a Swiss bank and two Canadian banks.

Dominion Textiles, via Credit Suisse First Boston, is seeking a $100m six-year note issuance facility. Notes issued under the programme will carry a maximum margin of 25 basis points and an underwriting fee of 20 basis points. If more than half the facility is utilised, there is an additional fee of 15 basis points.

Norcen Energy Resources, a Canadian oil and gas exploration and development company, is seeking a $100m seven-year term loan facility with a two-year availability arranged by S.G. Warburg. The loan carries a margin of 20 basis points in the first two years, 25 basis points in years three to five and 30 basis points in the last two years.

This is the first Euromarkets borrowing for Norcen and funds will be used to refinance domestic bank debt.

The troubles affecting Norway's banking sector have led the authorities there to take a more relaxed view of corporation borrowings outside the country and in foreign currencies. With pressure mounting on banks to improve capital-to-assets ratios, corporate lending is becoming an increasingly expensive process.

The latest beneficiary is Storebrand Finans, a subsidiary of the Norwegian insurance group, which is seeking a $60m three-year syndicated term loan arranged by First Chicago. The loan carries a margin of 25 basis points. Fees are 10 basis points for lead managers lending $10m or more, eight basis points for those lending $5m to $9m and five basis points for $2m to $4m.

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	2,495.2	2.5	108.0	8,151.0
Prev	1,991.8	0.1	337.9	9,178.2
Other	2,070.8	2.1	1,344.2	1,203.6
Prev	1,202.3	0.0	542.3	2,258.4

Secondary Market

	Straights	Conv	FRN	Other
US$	17,991.5	917.7	5,947.7	6,884.3
Prev	12,696.5	1,101.7	4,985.0	6,662.4
Other	15,207.8	866.4	4,540.9	23,829.6
Prev	15,839.5	898.5	4,718.0	23,039.4

	Cedel	Euroclear	Total
US$	10,296.4	32,201.5	42,497.9
Prev	9,726.7	27,226.9	36,953.6
Other	22,320.1	26,744.3	49,064.4
Prev	23,131.6	25,361.8	48,493.4

Week to September 22, 1988. Source: AIBD

INTERNATIONAL BONDS

US corporate borrowers return with a vengeance

SYNDICATE managers could have been forgiven for thinking they were caught in a time warp last week as primary market activity accelerated to a pitch not seen for some time, with US corporate borrowers – many long absent – launching a flood of dollar straight Eurobonds.

However, although current swap opportunities mean that deals can be easily arranged, whether they can be placed is a moot point. The discrepancy in the performance of many of the most recent deals would appear to indicate that some lead managers are pressing ahead with issues they are subsequently under pressure to place successfully.

American company treasurers are still keen to exploit the narrowness of the spreads between Eurodollar bonds and comparable US Treasury issues.

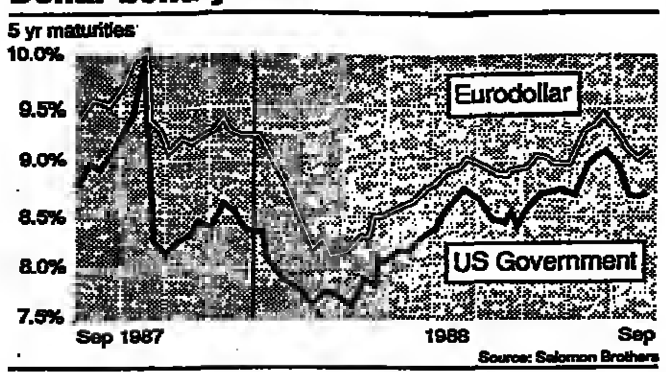
In spite of the recent rush of new paper, totalling $1.27bn last week alone, spreads are *still at their tightest* levels for some time. This holds an important attraction for smaller or less well-known companies which would normally only be able to raise funds at a level around the London interbank offered rate.

As a result of strong institutional and retail demand for dollar bonds, these borrowers are now able to get away with levels below Libor.

In the wake of the previous week's deals from the likes of Seagrams and Northern Telecom, last week brought another round of US corporates for whom the Eurobond market now looks, for the first time in ages, a more competitive arena than their own domestic market place.

Morgan Stanley International was the lead manager in the five-year $120m deal for Bell South Capital Funding Corporation, the financing arm for the parent telecommunications company's non-regulated subsidiaries. It emerged on Thursday on to a market which several rival syndicate managers had declared congested. Its success took many traders by surprise.

Although Bell South ranks among the top 10 US companies by market capitalisation, alongside more familiar names such as IBM and General Motors, it has not previously tapped the Eurobond market, although existing domestic borrowings and medium-term notes have a triple-A rating from Standard & Poor's.



Keen to establish a favourable reputation with this debut, the lead manager pitched the deal at 9¼ per cent and 101⅛, which offered a yield margin at launch of 48 basis points on a semi-annual basis. This was more than attractive enough for the investors who have been keeping their eyes on the primary market for virtually any new paper which offers a decent pick-up over seasoned bond issues.

It was a similar story with a $100m deal for Lincoln National, the US insurance group, via Credit Suisse First Boston. The credit of the borrower – a split AA/A rating – found favour with a high number of genuine end investors or value buyers.

Inevitably, though, the current market proved too attractive for some of its more experienced users. They saw an opportunity to raise Eurofunds, ostensibly for financing their overseas subsidiaries but reportedly often for arbitrage purposes, taking advantage of interest rate differentials between the domestic and international markets often as small as ¼ or ⅛ point.

General Electric returned to the market last week for the first time since early 1987 with a $500m deal which had a cool reception. The deal was led by Amsterdam-Rotterdam Bank out of Amsterdam, a choice which surprised many other houses given that Amro is not a house with an outstanding record in US dollar issues.

This appeared to affect investors' perception of the deal which, in spite of its top credit and reasonable pricing, was foundering not long after issue. According to more than one senior syndicate manager, investors are becoming increasingly concerned with the credibility of the lead managing house and with the appropriateness of the underwriting syndicate for each particular deal.

The attractive swap package behind the deal was reportedly a prime factor in the final award of the GE mandate. A tempting swap was apparently also behind the Australian Trade Commission's decision to issue its recent A$40m three-year deal via Merrill Lynch.

The Austrade deal was the week's sole offering in the sector.

However, proof of a continuing steady trickle of demand for a well-regarded name was evidenced by BZW's deal for Barclays Australia, which was upped late last week to a final total of A$100m, from first A$50m and then A$60m.

One of last week's more interesting and successful issues was the three tranche multi-currency – D-Mark, Swiss francs and dollars – equity warrant deal for a financing arm of Volkswagen, celebrating its 50th anniversary

Dominique Jackson

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Sumitomo Forestry#♦	100	1992	4	5⅛	100	Daiwa Europe	5.125
Ichikoh Industries#♦	50	1992	4	5⅜	100	Yamaichi Int. (Eur)	5.375
Mitsubishi Electric#♦	300	1992	4	4¾	100	Daiwa Europe	4.750
Furuno Electric Co.#♦	50	1992	4	5⅜	100	Yamaichi Int. (Eur)	5.375
Taisei Road Constr.#♦	80	1992	4	5⅜	100	Yamaichi Int. (Eur)	5.375
VW Int. Finance#♦	120	1998	10	9¾	128	Deutsche Bk Cap.Mkts	5.954
General Electric Co.♦	500	1993	5	9⅛	101⅜	Amro Bank	8.774
Lincoln National Corp.♦	100	1995	7	9⅜	101⅛	CSFB	9.523
IBM Credit Corp.♦	250	1991	3	8⅞	101.175	Salomon Brothers	8.416
LTCB of Japan♦	200	1992	4	9¼	101.20	LTCB Int.	8.881
Fukuyama Transporting#	180	1992	4	(5⅛)	100	Nomura Int.	★
Saehan Media Corp.§♦	30	2003	15	1.75	100	Citicorp Scr.Vickers	1.750
C'wealth Bk Australia♦	100	1993	5	9¼	101⅝	CSFB	8.834
Bell South Cap. Funding♦	120	1993	6	9¼	101½	Morgan Stanley	8.866
Flash Ltd. 'B'‡♦	30.2	1993	4¾	(a)	100.10	Sanwa Int.	-
CANADIAN DOLLARS							
Coca Cola Bottling♦	75	1993	5	11	101⅞	UBS (Secs)	10.499
Fed. Bus.Dev.Bk Canada♦	50	1991	3	10⅜	101⅛	Wood Gundy	9.923
Bk of Montreal S'pore♦	75	1990	2	10¾	101¼	Bank of Montreal	10.030
Toronto-Dominion Cay.Is♦	100	1990	2	10⅝	101¼	Wood Gundy	9.906
AUSTRALIAN DOLLARS							
Australian Trade Comm.♦	40	1991	3	13⅝	101½	Merrill Lynch	12.990
NEW ZEALAND DOLLARS							
Nat. Australia Bank♦	50	1991	3	14	101¼	Hambros Bank	13.466
D-MARKS							
Storebrand Fin.★★♦	75	1991	3	5¾	100¾	BHF-Bank	5.472
CNT♦	200	1998	10	6⅛	101⅜	WestLB	5.939
VW Int. Fin.#♦	300	1998	10	6½	130	Deutsche Bank	2.986
Eurofima★★♦	100	1991	3	5½	100⅝	BHF-Bank	5.269
EIB♦	300	1998	10	6	100½	WestLB	5.932
World Bank♦	500	1998	10	6	100¾	Deutsche Bank	5.899
Asfinag♦	150	1998	10	6	100	WestLB	6.000
Deutsche Girozentrale♦	100	1993	5	5¾	101	Deutsche G.-D'sche K.	5.516
SWISS FRANCS							
Ned. Hardmetaal Fab.♦	30	1993	-	5	100¼	Warburg Soditic	4.942
Daiwa Bank§★★♦	150	1994	-	½	100	SBC	0.500
Taio Paper Mfg.§★★♦	100	1993	-	½	100	SBC	0.500
Fuji Machine Mfg.§★★♦	35	1994	-	½	100	J.H. Schroder Bank	0.500
VW Int. Fin.#♦	230	2000	-	3	100	Credit Suisse	3.000
Shizuki Electric§★★	50	1994	-	(½)	100	Handelsbank NatWest	★
Jutland Telephone★★♦	41	1992	-	4⅜	100⅝	UBS	4.149
CIR Int. (Luxembourg)#	100	1993	-	(3)	(100)	Warburg Soditic	★
Mitsubishi Min.&Cem.★★§	100	1994	-	(½)	(100)	Credit Suisse	★
Kasai Kogyo Co.★★§	40	1994	-	(3)	100	Handelsbank NatWest	★
Knogo Corp. (d)	40	1993	-	(6)	(101)	TDB Amex Bank	★
STERLING							
NHL Fourth Funding (c)‡♦	100	2015	5.66	27½	100	Salomon Brothers	-
GUILDERS							
Nat. Investerings Bank♦	200	1993	5	6	101	ABN	5.764
PESETAS							
World Bank♦	15bn	1998	10	10⅜	99⅜	Deutsche Bank Madrid	10.479
FINNISH MARKKA							
World Bank♦	300	1995	7	9⅝	100½	Union Bk of Finland	9.524
LUXEMBOURG FRANCS							
Banrobel BV★★♦	300	1993	5	7⅝	100	Credit Europeen	7.625
Outokumpu Oy★★♦	300	1993	5	7⅝	100¼	BIL	7.563
DAF BV★★♦	300	1993	5	7½	100¼	Credit Lyonnais	7.438
YEN							
Toshiba Int. Fin.(a)♦	10bn	1993	5	7	101⅞	Nomura Int.	6.548
Bancá Comm. Italiana(b)♦	6bn	1995	7	7	101⅞	Nomura Int.	6.656

★Not yet priced. ★★Private placement. ‡Floating rate note. #With equity warrants. §Convertible. ♦Final terms. a) Redemption linked to Y/$ exchange rate. b) Bull/bear issue. Redemption linked to Japanese Government bond futures contract. c) 27½bp over 3m Libor first 10 years, 50bp thereafter. d) Redemption either 100% of nominal value or at SFr equivalent on redemption date of dollar value of bonds at payment date plus common stock of borrower equalling 110% of difference between such payment and SFrs40m. e) 21bp over 3m Libor first 3 months, 21bp over 6m Libor remainder. Note: Yields are calculated on AIBD basis.

UK GILTS

Traders continue to shrug off bad news

FOR THE past couple of months, the gilt-edged securities market has been looking at a glass and asking itself whether it was half empty or half full. Last week it seemed to decide it was half full.

Although few analysts could justify the improvement in prices for long-dated gilts on the economic background, the market clearly took heart from last week's money supply, second-quarter GDP figures, and signs from building societies that the housing market may be cooling.

Whether or not this judgment survives tomorrow's trade figures is another matter. But there is e view developing in the market that it could well be impervious to bad news and that the August trade figures may have to be worse than July's to have much effect.

However, the market's reaction underlined the force that the technical outlook can have on prices when there is demand for stock. With the collapse of the Bank of England's gilt funding programme this year and the absence of new issues, the market is capable of moving sharply higher when there is the merest indication of an improvement in the economic outlook.

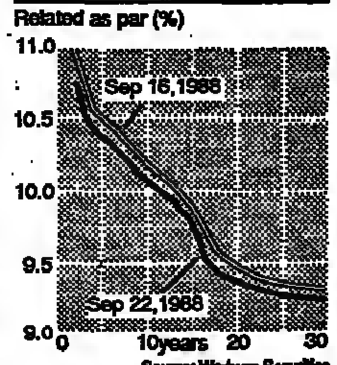
Last Tuesday's market movement was a foretaste of what will probably happen when economic news moves decisively in the market's direction. The longer the good news *takes to come, the greater the* possibility the market will find its new level at speed.

The technical position is improving every month. In the first five months of this financial year, the Bank was over funded by £1.3bn – the PSBR being a surplus of £4.6bn against negative debt sales by the non-bank and building society sector of £3.3bn.

The August money figures also gave an indication of foreign interest in the market and the Bank's buying-in activities. Of the £700m of negative debt sales by the non-bank and building society sector, about £400m were bought by foreign investors and up to £300m bought-in by the Bank.

One searches in vain among last week's figures for signs of a slowdown. Bank and building society lending was lower than expected in August but this was due to a fall off in lending to companies and securities' dealers, not because the consumer became less hungry for borrowings.

UK gilts yields



Source: Warburg Securities

The rise in M0 to an annual rate of 7.8 per cent was hardly a sign of a *slowing economy* either. Projections for M0 growth in September, based on three weeka of hanking returns, suggest that M0 growth will be about 8 per cent or possibly higher. The Treasury's target is for growth of between 1 and 5 per cent.

The Central Statistical Office's first guess at growth in the second quarter has not altered any views in the Treasury or the Bank as to the strength of domestic demand and growth.

The figures underline the extent of the leakage of demand into imports. Using the CSO's expenditure measure, admittedly the least reliable, domestic demand grew by 5 per cent and GDP by 2 per cent in the second quarter. And money numbers, especially M0, afford little comfort.

Sterling remains, as ever, the key. There may be some in the gilts market who believe it can weather a series of had economic releases for some time, but no one can be sure the same is true for the foreign exchange markets.

* * * *

Were the pension funds and insurance companies buyers or sellers of long gilts in the second quarter? Figures in British Business on Friday showed that they switched massively out of short and medium gilts (£153m and £582m respectively) and bought £825m on long-dated *stock.*

Simon Holberton

US MONEY AND CREDIT

Shearson advocates the long-term approach

AS SATURDAY night's schedule of television advertisements ground on, interrupted for brief moments by NBC's coverage of the Olympic Games in Seoul, one particular advert caught the eye.

It was an austere offering, with none of the snippets of past US sporting triumphs which have been used this last week to advertise everything from Macdonald's hamburgers to Philips light bulbs. It was merely a statement, in plain black and white, by Shearson Lehman Hutton, which filled television screens across America.

In sombre tones, the voice-over pronounced that the venerable Wall Street house did not *believe that investors* or markets were right to base their judgments on each and every set of economic figures released by the Government. Instead, Shearson urged, investors should be sensible and invest in the markets for the long-term.

Not only does an advert like this reflect on the grinding lack of husiness on Wall Street these days. It also makes little sense to investors who are facing a huge amount of uncertainty.

The election is beginning to dominete the domestic and international scene increasingly. Money Market Services of Redwood City, California, has started publishing weekly forecasts for bond yields at the end of November, based on a Bush or Dukakis victory.

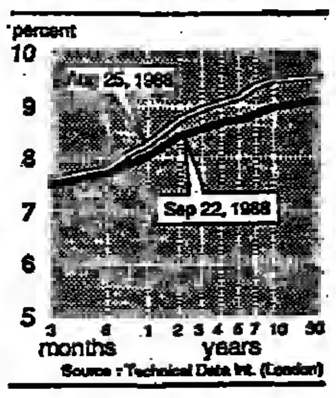
The current view is that the 30-year benchmark bond yield would stand at 9.5 per cent after a Dukakis victory and at 9.25 per cent if the Vice-President won. This is not a massive vote of confidence for either candidate.

Although the election is exerting itself on investor and dealer psychology, it is not decisive for the direction of markets. In fact, the effect is quite the opposite: the uncertainties surrounding the election have become the key to *inactivity on Wall Street.*

We have very little idea what the economic policies of the two presidential candidates are, apart from the vaguest differences in tone in their denials that they will raise taxes. It is difficult, on economic policy grounds, for voters to make their choice and there is little reason to buy or sell.

What is also becoming clear is that the Administration and its allies in the rest of the industrialised world are going to try their ntmost to keep things on Wall Street as quiet as possible. Investors appear to be complying happily.

US Treasury yields



Source : Technical Data Int. (London)

When finance ministers and central bankers from the *Group of Seven* met in Berlin at the weekend, the overriding message was that they wanted to maintain the policy *status quo.* Although they did not say it overtly, this means until at least after the November presidential election.

The communiqué talked of continuing economic expansion accompanied by relatively low inflation. The now-traditional optimism and complacency of G7 communiqués diverges markedly in tone from the recent comments by Mr Karl Otto Pöhl, Bundesbank president, who said that the G7 should send another strong signal to the world of its intention to fight inflation. The communiqué from Berlin was hardly that.

The possibility of an explosion of pent-up policy demands within the G7 as soon as the election is over, coupled with the resumption of active economic policy-making in the US, is enough to keep investors worried. Although the candidates have studiously avoided talking much about how *they* will tackle the budget deficit, it is still there. And, as Salomon Brothers pointed out in their bond market commentary at the weekend, the hudget is beginning to bulge as action is taken on the thrift industry crisis.

In August alone, net outlays by the Federal Savings and Loan Insurance Corporation *contributed* $3.8bn to the Federal deficit.

Salomon notes that the full bill for the restructuring of the thrift industry could he anything from $30bn to $100bn. It adds that much of the assistance offered this year has been accomplished through non-cash means, but that eventually the rescue operation will have to be financed through more Treasury borrowing.

The chronic state of the thrift industry has been known for a long time but has not been allowed to have much of an impact on the country's finances and the public consciousness. This is another area of potential trauma after the election is over.

But, until the votes are counted, the markets will continue to bob and weave on each indicator released, in spite of Shearson's efforts to elicit a longer-term view.

Last week was a case in point. The bond market was paralysed at the beginning of the week as traders awaited Wednesday's batch of economic data, including the all-important consumer prices index for August. (The second revisions for second-quarter GNP showed weaker growth but higher inflation, cancelling each other out.)

The figures showed an increase of 0.4 per cent, about what the market had expected. Without the notoriously jumpy food and energy series, the rise was even smaller. Housing starts and personal income and consumption figuree were mildly softer than expected. The bond market liked the figures but moved only slightly higher.

The mild boost of Wednesday's figures was wiped out by last Friday's figures for durahle goods orders, which jumped 6 per cent in August and sent bond prices down by ½ point. There was little change over the week as a whole and the yield on the long bond continues to hover just above 9 per cent.

Janet Bush

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.17	8.13	8.02	8.19	6.27
Three-month Treasury bills	7.43	7.15	7.35	7.53	5.14
Six-month Treasury bills	7.79	7.37	7.49	8.04	5.74
Three-month prime CDs	8.17	8.13	8.50	8.51	6.77
30-day Commercial Paper	8.02	7.80	8.20	8.20	6.57
90-day Commercial Paper	8.24	8.02	8.40	8.40	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	100¼	-⅜	8.86	8.81	9.25
20-year Treasury	103½	-⅝	9.08	8.99	9.43
30-year Treasury	101	-½	9.07	8.99	9.43
New 10-year "A" Financial	n/a	n/a	n/a	9.76	10.10
New "AA" Long utility	n/a	n/a	n/a	10.07	10.50
New "AA" Long industrial	n/a	n/a	n/a	9.97	10.37

Source: Salomon Bros (estimates).

Money supply: In the week ended September 7 M1 [illegible]

NRI TOKYO BOND INDEX

December 1985 = 100	22/9/88	Average yield †	Last week	12 wks ago	26 wks ago
Overall	143.82	4.95	143.33	143.30	143.45
Government Bonds	144.21	4.66	143.46	143.50	144.59
Municipal Bonds	145.38	5.24	144.99	145.46	144.74
Govt.-guaranteed Bonds	146.83	5.22	146.53	147.01	146.10
Bank Debentures	137.87	4.99	137.66	137.38	137.05
Corporate Bonds	144.48	4.59	144.27	143.93	142.36
Yen-denom. Foreign Bonds	148.21	6.29	147.64	146.56	142.98
Government 10-year†	5.22	n/a	5.32	5.17	4.82

† Estimated par yield

Source: Nomura Research Institute

Gemina posts 20% gain in net income

By Our Financial Staff

GEMINA, the diversified Italian investment company controlled by the Fiat motor group, made a net profit of L107bn ($76.3m) for the year to June, up 20 per cent from the previous year's L89bn.

The board of directors plans unchanged dividends of L60 per share and L60 per savings share. However, because of the group's big capital increase, the total cost of the year's payout is nearly doubled to L60.6bn.

The new share issue has transformed Gemina's balance sheet. At the end of June, it showed net cash of L93bn compared with net debt of L146bn a year earlier.

Gemina did not announce any specific plans for its cash reserves. But it noted that the sale of Intercontinentale Assicurazioni for L500bn had boosted group liquidity to the point where "significant and diversified developments" could be put in train.

Gemina owns key shareholdings in R.C.S. Editori, the publishing company, in Nuovo Banco Ambrosiano and in several industrial concerns, including Pirelli, the Orlando Group and Cartiere Burgo.

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
A.B.B. 8¼ 91	150	97⅞	-⅛	9.47
AETNA LIFE & CAS 7⅛ 16	200	44⅛	-⅛	8.24
AHFC O/S. FIN. 11⅛ 94	100	101⅞	0	11.29
A.I.D.C. 11 89	75	100⅛	0	9.65
ALBERTA PROVINCE 7⅞ 93	750	95⅛	-⅛	9.02
ALCOA AUSTRALIA 11 92	80	101⅛	0	10.52
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Issued	Bid price	Chg on week	Yield
QUEBEC PROV 15 90	150	106	-⅛	9.66
QUEENSLAND GOVT 11½ 89	100	102⅛	0	9.40
RALSTON PURINA 11½ 95	150	103⅛	+⅛	10.28
REYNOLDS R.J. 10¼ 93	100	102⅛	-⅛	9.57
RICHARDSON-VICKS 11⅛ 93	125	104⅛	0	10.30
ROCKWELL INT 9⅞ 90	200	101	-⅛	9.21
S.A.S. 10⅜ 95	150	101⅛	-⅛	9.77
SNCF 7⅞ 94	375	92⅛	-⅛	9.35
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. [illegible] CONVERTIBLE BONDS: US Dollars unless indicated. [illegible] WARRANTS: [illegible] Closing prices on SEPTEMBER 23

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

SEK to file Samurai shelf registration

By Dominique Jackson

SWEDISH EXPORT Credit (SEK), one of most frequent and well-regarded users of the Eurobond market, plans to be the first foreign borrower to file a Samurai shelf registration statement on October 1 under the newly liberalised guidelines of the Japanese Ministry of Finance.

Samurai bonds are public issues on the Japanese capital markets by foreign borrowers. Shelf registration will enable SEK to gain advance approval for issues up to a given amount.

Daiwa Securities, which is acting as agent, said SEK would inititially register a total maximum amount of Y100bn for issuance over the two-year life of the arrangement, although it is not yet known whether any immediate issues are planned.

The Samurai bond market has seen some improvement this year with many issuers tapping the Tokyo markets in preference to issuing in the Euroyen sector, which has suffered from supply and liquidity problems this year.

Daiwa said SEK, which is returning to the Samurai market for the first time in four years, was encouraged by widely held expectations that the Ministry of Finance would act further to revitalise the domestic capital markets.

Shelf registration is an important step towards making the Samurai sector more efficient, largely because it facilitates more appropriate timing of issues.

Olivetti to discuss big reshuffle

By John Wyles in Rome

OLIVETTI, the Italian data processing equipment group, is expected to discuss a big corporate reorganisation at a board meeting tomorrow, in an attempt to strengthen its technical and marketing activities in the 1990s.

The plan's architect is Mr Vittorio Cassoni, group managing director, who returned to Italy earlier this year after 18 months in New York as president of American Telephone & Telegraph's data processing division.

Details of the reshuffle are still largely a matter of speculation and no immediate announcement is expected after the meeting, which is formally dedicated to considering the group's first-half results.

Analysts have been expecting a shake-up in the wake of Mr Cassoni's return, which coincided with the withdrawal from day-to-day management by Mr Carlo De Benedetti, Olivetti chairman.

Olivetti refused at the weekend to comment on what were "rumours" about the shape of the Cassoni plan. As elaborated by several Italian newspapers, these suggest that the main proposal is to create a group holding company in control of at least two operating subsidiaries, one specialising in computers and the other in office equipment. A third possible subsidiary may operate Olivetti's software interests.

It is thought that the new structure could provide leading roles for both Mr Cassoni, as managing director of the holding company, and for Mr Vittorio Levi, Olivetti's vice-president for operations, who is said to have been considering his future since Mr Cassoni's arrival.

His name is being linked with the running of the computer subsidiary while that of Mr Franco Tato, who runs Olivetti's West German Triumph-Adler subsidiary, is put at the top of the office equipment operation.

Olivetti's first-half results are expected to show the continuing pressure on margins which has recently been common to most leading personal and mini-computer manufacturers.

Vittorio Cassoni: architect of reorganisation

US computer groups consider chip venture

By Louise Kehoe in San Franciso

AMERICAN computer manufacturers, facing a critical shortage of memory components, are developing plans for collaborative efforts to reduce US dependency on Japanese chip suppliers.

According to industry observers, schemes for companies to combine in funding the construction of new chip plants in the US are under "serious discussion."

Semiconductor memory chips, called Dynamic Random Access Memories (Drams), have been in short supply for more than a year, stunting the growth of the US electronics industry. About 90 per cent of Drams, used in all types of computers, are currently produced in Japan.

In spite of the overwhelming demand for the chips, most US semiconductor manufacturers have been reluctant to invest in new plants because of the high cost and the risks associated with this volatile market.

However, discussions between US chip producers and users, which began in January, recently culminated in an agreement to pursue "extraordinary measures designed to increase US Dram production."

Chief executives from several leading computer and semiconductor companies plan to visit Washington within the next two weeks to discuss the Dram shortage with officials. They will seek government co-operation – possibly in the form of tax breaks and anti-trust waivers – for joint ventures between Dram producers and users.

An industry steering committee, appointed earlier this month, is working on details of how such efforts could proceed.

Members of the committee include senior executives from each of the five largest US chip makers – Motorola, Texas Instruments, National Semiconductor, Advanced Micro Devices and Intel – along with executives from Tektronix, Tandem, Sun Microsystems, Apple Computer and Compaq.

Motorola, which recently announced plans for a Dram plant in Arizona, scheduled to begin volume production in mid-1989, confirmed last week that it was considering proposals for a second US plant.

A company official said that "serious exploratory discussions" were under way with a number of customers who were seeking a long-term assured supply of Drams. Joint funding of the project, which could cost as much as $200m, is under consideration as are multi-year purchase contracts.

Although Motorola declined to identify its potential partners, Compaq Computer, Apple Computer and Sun Microsystems are among the companies that have expressed strong interest in such a scheme.

All three companies have been seriously affected by the chip shortage.

In other efforts to boost US Dram production, two new semiconductor ventures are understood to be creating widespread interest among computer manufacturers, which have been approached to provide funding in return for guaranteed Dram supplies.

Renouf in NZ$401m loss at year-end

By Dai Hayward in Wellington

RENOUF Corporation, the New Zealand banking, industrial and property group, has plunged into a loss for the year ended June and has had its accounts qualified.

It has run up a deficit of NZ$401.2m (US$247.6m), compared with a profit of NZ$152.2m for the 15 months to the previous June.

It is the second biggest loss to be incurred by a New Zealand company.

In preseoting its report, Renouf said it had written down to nil the value of its 25 per cent shareholding in the Hong Kong-based Impala Pacific. It is partly as a result of Impala that Renouf is in trouble with its auditors.

The directors described the past year as "traumatic." They said, however, that the company's asset values had oow stabilised and that group shareholders' funds totalled more than NZ$100m. Group reveoue for last year was NZ$399.6m, dowo from NZ$574.9m previously.

The company's results carried an auditors' qualification, because audited accounts were not available for Impala Pacific or Beoequity Properties. The auditors were not able to estimate the value of Reoouf's investments in these companies.

Funds fixed for oil-sands project

THE CANADIAN and Alberta governments have announced a financing package for a C$4.1bn (US$3.4bn) oil-sands project to be built in northern Alberta, David Oweo writes from Toronto.

The plant, with a capacity of 75,000 barrels a day of synthetic crude oil, is expected oostream in the mid-1990s, pending two years of engineering studies.

The so-called Oslo plant is the fourth energy project in the last two mouths to be kick-started with the help of public funding. In all, about C$850m of public money will be committed, together with up to C$1.2bn of loan guarantees.

EIE buys resort from Ariadne

EIE Development, the Japanese investment group, has acquired the Sanctuary Cove Gold Coast resort from Ariadne Australia for A$341m (US$268.5m).

EIE said it struck the deal with Ariadne over the weekend after a counter offer from Suntory encouraged EIE to revise its original A$280m bid. The Japanese group said Sanctuary Cove fitted well with its existing property holdings.

Fin. Trustco keeps stake

By Robert Gibbens in Montreal

FINANCIAL Trustco Capital, which recently sold its trust company unit to Central Capital Corporation, Canada's fastest growing financial services group, plans to retain its 41 per cent interest in Walwyn, a national brokerage firm.

Mr John Pelton, president, said Financial Trustco had been approached by several potential bidders for Walwyn, but it had decided to keep the interest as a "strategic investment."

Walwyn is a leading retail broker in Canada, hut revenues have declined by about half since the October stock market crash.

The company turned in a deficit of C$205,000 (US$169,400) for the first six months of this year.

But Canadian securities regulators have subsequently ruled that its capital base is sufficient.

MTBE plant for Canada

By Our Montreal Correspondent

CANADA'S first methyl tertiary butyl ether (MTBE) plant will get the go-ahead by the end of the year, after feasibility studies have been completed. It will cost C$250m (US$204.9m).

MTBE is used as an additive in non-leaded petrol and will be in increasing demand as environmental standards in North America are tightened.

The plant will be built at Edmonton, Alberta, by a consortium of Neste of Finland, Celanese Canada, Hoecbst Celanese of the US and Trans Mountain Pipeline of Canada.

Celanese and Hoechst will guarantee the methanol raw material supply and provide land, while Neste and TMP will be equity partners with a split of 75 and 25 per cent respectively.

Most of the output will be exported to the western US. Probable start-up date is 1991.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

Arkwright Management (1400)F
2 King St, Manchester M60 3AH 061-832 0242

Growth Sept 20	5	90.60	90.60	96.38	2.32	4092
Income Sept 20	5	45.34	46.00	49.02	5.02	4093

[illegible]

London & Manchester (Tst Mgmt) Ltd (1000)H
Winslade Park, Exeter EX5 1DS 0392 282673

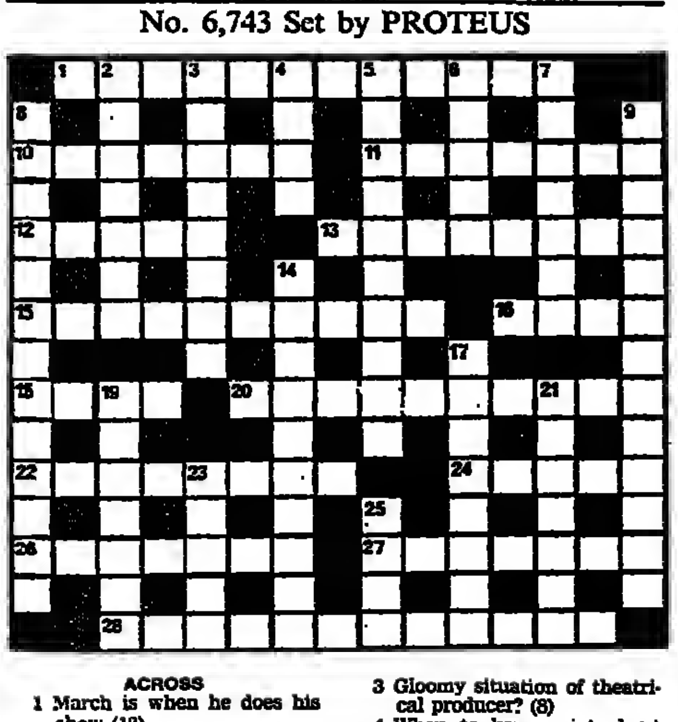
American	5	30.30	30.63	32.52	0.0	40028
General	5	47.47	47.71	50.65	3.7	40029
Income	5	42.76	43.16xd	45.82	6.0	40030
International	5	35.46	35.79	37.99	0.9	40031
Japan	5	49.67	49.90xd	52.97	–	40032
Tst of Inv Trusts	5	35.08	35.87	38.08	2.0	40033

[illegible]

JOTTER PAD

CROSSWORD

No. 6,743 Set by PROTEUS



ACROSS

1 March is when he does his show (12)
10 Mulled ale must have charms (7)
11 Layer-cakes turned out by backsliding churchwomen (7)
12 Managed football club without foreign money (5)
13 One who is captivated by a sentence? (8)
15 Result of too much pressure for deliveries by rail (10)
16 Mineral in metal container (4)
18 Painter of cabinet types (4)
20 Prosaic footman (10)
22 Final turn to a novice after race (8)
24 Long-term prisoner's file reviewed by king (5)
26 Soldier getting everyone to go back to ship (7)
27 One mistake – taking specialist force round mountain range (7)
28 Falling off of French production (12)

DOWN

2 Successfully rival bird – teal perhaps (7)
3 Gloomy situation of theatrical producer? (8)
4 When to keep quiet about waistband (4)
5 Soldier made every effort to appear controlled (10)
6 Rates varied due to weeds . . . (5)
7 . . . . round one domed building (7)
8 Coin only 50% royal (4-9)
9 Strange man embracing girl followed by crowd of US journalists (8,5)
14 Hermaphrodite calf unimpeded by bird (10)
17 Cultivate way-out sets but remain superlatively calm (8)
19 Boy singer's first descant in triplicate (7)
21 Draw negative conclusion from conflagration (7)
23 Object to night-work (5)
25 Employer getting custom right (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 8.

GUIDE TO UNIT TRUST PRICING

The data included under the Authorised section of the FT Unit Trust Information pages is being expanded to improve the service to readers and to conform with new legislation.

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♣ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; ♠ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that prices are set on a historic basis. This means that, unless there has been an intervening portfolio revaluation, investors can normally buy and sell units today at the prices appearing in the newspaper which have been set on the basis of yesterday's asset value.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out last Friday.
Other explanatory notes are contained in the last column of the FT Unit Trust Information pages.

[illegible]

FT UNIT TRUST INFORMATION SERVICE

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
TSB Unit Trusts (y) (1000)F						
Charlton Pl, Andover, Hants. SP10 1RE						
TSB American	5	101.38	101.38	107.72	[illegible]	[illegible]
Do Accum	5	108.31	108.31	115.08	[illegible]	[illegible]
TSB Brit Growth	5	52.70	52.70	56.06	[illegible]	[illegible]
Do Accum	5	55.15	55.15	58.67	[illegible]	[illegible]
TSB European	5	50.55	50.55	53.78	1.15	[illegible]
Do Accum	5	51.95	51.95	55.24	1.15	[illegible]
TSB Extra Income	5	141.59	141.59	150.63	6.00	[illegible]
Do Accum	5	182.76	182.76	[illegible]	6.00	[illegible]
TSB Smaller Cos	5	52.07	52.07	[illegible]	2.24	[illegible]
Do Accum	5	52.99	52.99	[illegible]	2.24	[illegible]
TSB General	5	173.02	173.02	184.06	3.41	[illegible]
Do Accum	5	299.50	299.50	[illegible]	3.41	[illegible]
TSB Gilt & Fxd Int	3½	46.94	46.94	48.54	9.08	[illegible]
Do Accum	3½	70.87	70.87	73.30	9.08	[illegible]
TSB Income	5	256.29	256.29	[illegible]	5.15	[illegible]
Do Accum	5	426.71	426.71	[illegible]	5.15	[illegible]
TSB Pacific	5	202.29	202.29	[illegible]	0.33	[illegible]
Do Accum	5	210.32	210.32	223.74	0.33	[illegible]
TSB International	5	320.62	320.62	341.96	1.05	[illegible]
Do Accum	5	403.31	403.31	430.13	1.05	[illegible]
TSB Nat Resources	5	60.12	60.12	63.96	1.42	[illegible]
Do Accum	5	63.19	63.19	67.22	1.42	[illegible]
TSB Sicld Opps	5	77.09	77.09	82.01	2.43	[illegible]
Do Accum	5	87.98	87.98	[illegible]	2.43	[illegible]
Target Trust Mngrs Ltd (1600)H						
Target Hse, Gatehouse Rd, Aylesbury, Bucks.						
Admin: 0296 394000			Dealings:	0296 379060		
American Eagle	5	63.90	63.90	[illegible]	[illegible]	[illegible]
Australia	5	7.354	7.354	7.880	0.10	—
Commodity	5	74.78	74.78	80.78	[illegible]	[illegible]
Convertible	5	139.1	139.1xd	[illegible]	[illegible]	[illegible]
Equity	5	146.1	146.1	157.4	[illegible]	[illegible]
Euro Spec Sits	5	78.73	78.73	84.54	[illegible]	[illegible]
Financial	5	30.02	30.02xd	[illegible]	[illegible]	[illegible]
Global Opps Inc	5	55.45	55.45	[illegible]	[illegible]	[illegible]
Global Opps Acc	5	55.45	55.45	[illegible]	[illegible]	[illegible]
Gold Income	5	48.77	48.77	52.14	[illegible]	[illegible]
Gold Acc	5	89.83	89.83	96.11	0.00	[illegible]
Income	5	102.2	103.0xd	110.7	4.58	[illegible]
Japan	5	117.2	117.2xd	126.2	0.00	[illegible]
Pacific Inc	5	110.1	110.1xd	118.3	0.06	[illegible]
Pacific Acc	5	136.6	136.6	147.1	0.06	[illegible]

	Bid Price	Offer Price	Yield Gross	City-line
MIM Ltd				
Magd Fees (Acc)	54.1	57.7	6.80	[illegible]
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
Amer Expt Sept 21	40.6	42.7	2.28	[illegible]
Euro Expt Sept 21	40.6	42.6	2.59	[illegible]
Fixed Int Ex Sept 21	48.1	50.6	9.8	—
Japan Expt Sept 21	52.4	54.5	0.47	[illegible]
Managed Ex Sept 22	38.0	40.3	4.54	[illegible]
SE Asia Expt Sept 21	35.4	37.1xd	2.20	[illegible]
Sm Cos Expt Sept 21	42.8	44.9	2.81	[illegible]
UK Eqty Ex Sept 21	33.8	35.4xd	4.57	[illegible]
New Court Property Fund Managers				
NC Property	189.5	199.5	—	[illegible]
Phillips & Drew Fund Management Ltd				
PDFM Small Co Fd 2/9	771.0	817.0	3.75	[illegible]
Do Accum	795.0	844.0	3.75	[illegible]
PDFM Int Expt Sept 22	128.4	130.4	2.72	[illegible]
J. Rothschild Fund Managers Ltd				
Intl Equity	91.60	92.75	2.98	[illegible]

INSURANCES

	Bid Price	Offer Price	Yield Gross	City-line
AA Friendly Society				
(Investment Mngt. M & G Inv Mngt Ltd)				
AA Friendly Sy Sept 8	—	134.9	—	[illegible]
Abbey Life Assurance Co Ltd				
80 Holdenhurst Road, Bournemouth				0202 292373
Prop. Ser. 1	257.0	271.4	—	[illegible]
Equity Ser. 1	112.2	118.2	—	[illegible]
Prop. Acc. Ser 2	373.3	393.0	—	[illegible]
Equity Ser 2	127.5	134.1	—	[illegible]
Selective Acc	287.4	302.6	—	[illegible]
Prop. Ser. 4	288.5	304.0	—	[illegible]
Equity Ser. 4	131.2	138.2	—	[illegible]

OTHER UK UNIT TRUSTS

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

	Bid Price	Offer Price	Yield Gross	City-line
Pearl Assurance (Unit Funds) Ltd				
252 High Holborn, London WC1V 7EB 01-405 8441				
Prop. Dist. (Gross)	176.d	185.7	–	43235
Prop. Acc. (Gross)	285.5	300.6	–	43236
Equity (Gross)	647.8	681.9	–	43237
Managed (Gross)	466.5	491.1	–	d3238
Prop. Acc (Net)	131.0	138.9	–	43239
Equity (Net)	151.9	159.9	–	43240
Managed (Net)	143.6	151.2	–	43241
Internat'nal (net)	131.6	138.0	–	43242
Gilt & Fxd Interest	99.1	104.4	–	43243
Money Fund	100.9	106.2	–	43244
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	440.2	463.4	–	43245
Ret Man (Series 2)	149.3	157.2	–	43246
Ret Man (Series 3)	98.2	98.2	–	–
Ret Cash	124.9	111.5	–	43247
Ret Cash (Series 3)	102.4	102.4	–	–
Phoenix Assurance Co Ltd				
Phoenix House, Redcliff Hill, Bristol 0272 294941				
Life Assurance Funds				
Wealth Assd	386.4	406.9	–	43248
Eb'r Ph. Eq.	329.4	350.5	–	43249
Pension Plan Funds				
Phoenix				
UK Equity Acc	167.1	175.8	–	43250
International Acc	142.5	149.9	–	43251
Property Acc	148.5	156.1	–	43252
Fixed Interest Acc	155.2	163.3	–	43253
Money Acc	144.3	151.8	–	43254
Bldg. Soc. Link Acc	141.1	148.5	–	43255
Special Mngd Acc.Q	152.3	160.3	–	43256
Phoenix/Framlington				
Inpl Growth Acc	88.90	95.50	–	43257
Am Smllr Cos. Acc	90.70	99.40	–	43258
Capital Tst. Acc	171.0	180.0	–	43259
Japan & Gen Acc	188.1	198.0	–	43260
American Turn Acc	98.90	104.1	–	43261
Recovery Tst. Acc	177.6	186.9	–	43262
Special Mngd Acc	148.2	155.9	–	43263
Phoenix/GT				
International Acc	133.8	140.8	–	43264
US & General Acc	88.60	93.20	–	43265
Amer Spec Sits Acc	68.40	71.90	–	43266
Japan & General Acc	190.0	200.0	–	43267
Far East & Gen. Acc	135.4	142.5	–	43268
UK Capital Acc	172.d	181.4	–	43269
European Acc	147.8	155.3	–	43270
Special Mngd. Acc	127.2	133.8	–	43271
Pioneer Mutual Insurance Co Ltd				
16 Crosby Rd, N Waterloo, Liverpool 051-928 6655				
Managed Fund	257.0	270.6	–	43272
Man Pens Inc & Cap Fds	324.2	341.3	–	43273
Money Fund	114.2	120.3	–	43274
Pens. Mngd Fd (Init)	86.5	91.1	–	43275
Pens Mngd Fd (Acc)	100.5	102.0	–	43276
Pens FT30 Fd (Init)	123.2	129.7	–	43277
Pens FT30 Fd (Acc)	143.0	150.6	–	43278
Pens O'seas MgFd(Init)	60.2	63.4	–	43279
Pens O'seas MgFd(Acc)	70.0	73.7	–	43280
Pens Fxd Int. Fd (Init)	102.2	107.6	–	43281
Pens Fxd Int Fd (Acc)	118.7	125.0	–	43282
Pens Deposit Fd (Init)	101.7	107.1	–	43283
Pens Deposit Fd (Acc)	118.2	124.5	–	43284
Premium Life Assurance Co Ltd				
37-39, Perrymount Road Haywards Heath 0444 458721				
American	106.0	112.0	–	43285

	Bid Price	Offer Price	Yield Gross	City-line
Provident Life Assoc Ltd				
Provident Way, Basingstoke RG21 2SZ 0256 470707				
Unit Fund	884.8	929.0	–	43476
Equity Fund	200.3	210.3	–	43477
International Fd	132.8	139.4	–	43478
Fixed Interest Fd	148.9	156.3	–	43479
Property Fund	172.7	181.3	–	43480
Index-Linked Fund	124.6	130.8	–	43481
Deposit Fund	130.2	136.7	–	43482
Pens. Mixed (Ord) Fd	204.3	214.5	–	43483
Gold Pensions				
Discretionary Fund		99.0	–	–
Equity Fund		97.0	–	–
Fixed Interest Fund		101.6	–	–
International Fund		99.3	–	–
Property Fund		100.0	–	–
Index-Linked Fund		101.6	–	–
Deposit Fund		101.9	–	–
S & F Consolidation		100.5	–	–
S & F Balanced		98.2	–	–
S & F Maximum Growth		94.7	–	–
Provident Mutual Life Assc. Assn.				
Willian Rd, Hitchin, Herts SG4 0LP 0438 739000				
Managed Ord	283.0	297.9	–	43484
Managed Init	233.0	245.3	–	43485
Equity Ord	392.8	413.5	–	43486
Equity Init	323.4	340.4	–	43487
Index Linked Gilt Ord	123.3	129.8	–	43488
Index Linked Gilt Init	106.0	111.6	–	43489
Overseas Equity Ord	257.5	271.1	–	43490
Overseas Equity Init	212.0	223.2	–	43491
Property Ord	172.5	181.6	–	43492
Property Init	142.0	149.5	–	43493
Fixed Interest Ord	168.8	177.7	–	43494
Fixed Interest Init	138.0	146.2	–	43495
Deposit Ord	136.1	143.3	–	43496
Deposit Init	112.0	117.9	–	43497
Pension Funds				
Managed Ord	341.5	359.5	–	43498
Managed Init	281.2	296.0	–	43499
Equity Ord	492.0	516.8	–	43500
Equity Init	404.2	425.5	–	43501
Pen Ind Lkd Gilt Ord	133.0	140.0	–	43502
Pen Ind Lkd Gilt Init	114.3	120.3	–	43503
Overseas Equity Ord	292.2	307.6	–	43504
Overseas Equity Init	240.0	253.3	–	43505
Property Ord	202.2	212.8	–	43506
Property Init	166.5	175.3	–	43507
Fixed Interest Ord	192.0	202.1	–	43508
Fixed Interest Init	158.1	166.4	–	43509
Deposit Ord	170.3	179.3	–	43510
Deposit Init	140.2	147.6	–	43511
Prudential Assurance Co				
Holborn Bars, London EC1N 2NH 01-405 9222				
Prufund				
Managed Sept 21	204.5	213.1	–	43512
Prudential Holborn Life Ltd				
30 Old Burlington St, London W1X 1LB 01-439 3134				
Holborn Series I Life Funds				
Managed	437.0	461.0	–	–
Equity	872.2	918.2	–	–
Fixed Interest	370.3	389.8	–	–
Property	353.9	372.6	–	–
Cash	246.0	259.0	–	–
International	303.0	319.0	–	–
Holborn Series II Life Funds				
Managed	429.0	452.5	–	43513
Equity	854.7	899.7	–	43514
International	297.4	313.1	–	43515
Fixed Int	361.4	380.5	–	43516
Property	345.7	363.9	–	43517

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

UK LISTED

OFFSHORE INSURANCES

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	"Shorts" (Lives up to Five Years)					
41	Redemption 3pc 1986-96	99¼xd	–	25.8	1Apr 10Oct	1278
2,050	Treas. 9½pc '88	99[illegible]xd	11.57	19.9	25Apr 25Oct	1346
2,250	Treas 11½pc 1989	99[illegible]	11.34	18.7	22Aug 22Feb	1291
855	Treas 9½pc Cnv 1989	99½xd	11.19	12.9	18Oct 18Apr	1348
500	Treas 3pc 1989	96⅝	8.58	8.4	15Nov 15May	1327
1,400	Treas 10½pc 1989	99[illegible]	11.19	9.5	14Dec 14Jun	1287
2,400	Exch. 10pc 1989	99[illegible]	11.15	27.6	1Feb 1Aug	1250
2,000	Exch 11pc 1989	99[illegible]	10.07	23.8	29Mar 29Sep	1256
601	Treas 5pc 1986-89	95½xd	9.78	8.9	13Apr 15Oct	1329
535	Exch 10¼pc Cv '89	99¼	10.85	8.4	15May 15Nov	1255
1,000	Treas 13pc 1990‡‡	102[illegible]	10.43	8.6	15Jul 15Jan	1300
1,400	Exch 11pc 1990‡‡	100[illegible]	10.44	6.7	12Aug 12Feb	1257
1,250	Exch. 12½pc 1990	102[illegible]	10.58	16.8	22Sep 22Mar	1262
550	Treas. 3pc 1990	90[illegible]	9.12	5.4	8Nov 8May	1325
600	Treas 8¼pc 1987-90‡‡	96½	10.47	9.5	15Dec 15Jun	1340
1,000	Treas. 8pc Cv 1990 ‡‡	97[illegible]	9.70	9.6	16Jul 16Jan	4650
1,887	Treas. 10pcCv 1990	99xd	10.58	19.9	25Apr 25Oct	1285
500	Exch 2½pc 1990	87¾	8.79	15.4	22Mar 22Nov	1270
2,200	Treas 11¾pc 1991	102[illegible]	10.56	3.6	10Jul 10Jan	1292
400	Funding 5¾pc '87-91‡‡	90¾xd	9.87	1.9	5Oct 5Apr	1275
400	Treas. 3pc 1991	86½	8.90	6.4	13Nov 13May	1326
646	Treas 10pc Cv '91 ‡‡	99[illegible]	10.34	6.6	12Jan 12Jul	1286
1,550	Exch. 11pc 1991	101[illegible]	10.47	19.9	25Apr 25Oct	1258
1,350	Treas. 8pc 1991	93[illegible]	10.50	4.5	10Jun 10Dec	1335
900	Treas 12¾pc 1992‡‡	106[illegible]	10.40	15.6	22Jul 22Jan	1297
1,600	Treas 10pc 1992	98¾	10.37	15.7	21Aug 21Feb	1283
1,400	Treas. 8pc 1992 ‡‡	93[illegible]xd	10.40	6.9	13Oct 13Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	100[illegible]	10.39	31.3	7Nov 7May	1289
500	Treas. 3pc 1992	82[illegible]	8.56	5.5	11Dec 11Jun	1328
1,350	Exch. 12¼pc '92	105[illegible]	10.39	19.7	25Feb 25Aug	1265
1,757	Exch 13½pc 1992	109¾	10.41	16.8	22Mar 22Sep	1266
950	Treas 8¼pc 1993	92[illegible]	10.32	12.7	18Aug 18Feb	–
1,850	Treas 10pc 1993‡‡	99[illegible]xd	10.25	8.9	15Oct 15Apr	1279
1,100	Treas 12½pc 1993‡‡	107[illegible]	10.33	7.6	14Jan 14Jul	1296
600	Funding 6pc 1993‡‡	87[illegible]	9.05	9.8	15Mar 15Sep	1276

Five to Fifteen Years

BRITISH FUNDS—Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS – Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,451.3	Texas Instr. $1	24¼xd	72c	1.7	22.9	JAJO	–
6,174.0	Time Inc. $1	64⅝xd	$1.00	0.9	25.8	Mr Je Se De	4234
1,627.7	Transamerica $1	21⅓xd	$1.84	5.1	29.5	Ja Ap Je Dc	4289
559.6	TRINOVA Corp	16⅓xd	64c	2.3	10.8	Mc Je Se De	4309
5,070.8	USX $1	16⅓	$1.20	4.2	2.8	Mr Je Se De	4380
3,082.3	Utd. Technologies	23½xd	$1.60	4.0	24.8	Mr Jn Sp Dc	4381
6,612.2	US West	33	$3.52	6.3	13.4	Fb My Ag No	–
5,511.8	Waste Management $1	24⅞xd	48c	1.2	16.9	Ap Jly Oc Jan	4439
1,073.1	Whirlpool $1	15½	$1.10	4.2	25.01	Mr Je Se De	–
2,068.8	Woolworth $3½	31½	$1.64	3.1	19.11	Mr Je Se De	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	ABM Gold Corp	197p	–	–	–	–	–
–	Abbot Energy Corp.	13½p	–	–	–	–	–
562.2	Amer. Barrick Res.	976p	–	–	–	–	–
–	American Lightwave	3p	–	–	–	–	–
–	Arnoeno	12p	–	–	–	–	–
–	Augmitto Expln.	44p	–	–	–	–	–
1,455.5	Bk. Montreal	14	$2.00	6.9	8.8	Fb My Ag Nv	–
1,214.1	Bk. Nova Scot.	732p	76c	5.0	28.6	Ja Ap Jn Oc	–
4,603.4	BCE	18xd	$2.44	6.6	6.6	Ap Jy Dc Ja	–
270.0	Bow Valley	652p	40c	3.0	15.12	May Nov.	–
865.6	Brascan	12¼	88c	3.4	28.10	Ju Ap Jy Oc	–
44.2	Breakwater Res.	197p	10c	2.5	–	–	–
1,838.9	Can.Imp Bank	11¼	$1.16	4.8	29.6	Fe My Au No	–
3,182.3	Can. Pacific	10½	60c	2.8	28.6	July Jan.	–
18.9	Do. 4pc Deb £100.	40½	4%	9.9	24.5	July Jan	2051
–	Central Capital "A"	461p	–	–	–	–	–
–	Corona Corp.	387p	–	–	–	–	–
33.8	Cons. TVX Min	332p	–	–	–	–	–
–	Daabus Res.	295p	–	–	–	–	–
–	Derlan Inds.	596p	11.75c	1.0	3.6	Mr Jn Se De	–
936.7	Echo Bay Mines	989p	$0.07	0.4	–	June Dec	–
–	Energex Minerals	15p	–	–	–	–	–
–	Euro-Asia Capital Ltd	98p	–	–	–	–	–
89.7	Galactic Resources	381p	–	–	–	–	–
11.4	Geodome Res	84p	–	–	–	–	–
41.8	Granges Expln	192p	–	–	–	–	–
–	Gt Pacific Res.	7p	–	–	–	–	–
–	Gulf Canada	793p	52c	3.2	26.3	Ja Ap Jy Oc	–
87.6	Hawker Sid Can	10¾	$1.08	4.9	15.11	Ap Jy Oc Ja	–
–	Hanlys Group	491p	–	–	–	–	–
275.4	Hudson's Bay	922p	60c	3.2	2.10	Mr Jn Sp Dc	–
4,064.0	Imperial Oil	25¼	$1.80	3.5	26.11	Mr Je Se De	–
1,714.1	Inco	16¼	US$0.80	2.9	27.4	Jan Ag J.O.	–
–	Inland Nat. Gas $1	590p	60c	4.9	30.12	Fe My Au No	–
0.07	Madeleine Mines	138p	–	–	–	–	–
–	Muscocho Expln	189p	–	–	–	–	–
–	Nuni Business Syst.	80p	–	–	–	–	–
–	Nevada Goldfields.	172p	–	–	–	–	–
442.4	Rio Algom	10¾	$1.30	6.1	5.11	June Dec.	–
2,339.8	Royal Bk. Can.	16⅞	$2.08	6.0	20.10	Mr Je Se De	–
3,103.6	Seagram	32½	US$1.20	2.2	14.2	Se De Mr Ju	–
–	Sonora Gold Corp	145p	–	–	–	–	–
–	Spiral Eng.	49p	–	–	–	–	–
–	Tara Pure Tech Corp	128p	–	–	–	–	–
2,560.9	Toronto-Dom Bk.	17¾	$1.12	3.1	22.12	F My Au No	–
796.3	Trans Can Pipe	639p	68c	5.2	1.12	Ja Ap Jy Oc	–
281.5	Varity Corp	170p	8–	–	11.77	–	–

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LONDON SHARE SERVICE

LEISURE—Contd

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- [symbol] Not officially UK listed; dealings permitted under rule 535(4)(a)
- [symbol] USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- [symbol] Merger bid or reorganisation in progress
- [symbol] Not comparable
- [symbol] Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- [symbol] No par value

B.Fr. Belgian Francs. Fr. French Francs. ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. n Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. o Rights issue pending. u Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p ... γ	70	−1
Craig & Rose £1 ... γ	690	.....
Finlay Pkg 5p ... γ	86	.....
Holt (Joe) 25p ... γ	£11½	+¼ [?]
Arnotts ... γ	365	.....
Carroll Inds ... γ	158	−2
Grafton Grp ... γ	120	+1
Hall (R. & H.) ...	165	.....
Helton Hldgs ... γ	56	.....
Irish Ropes ... γ	163	.....

IRISH

Cap. 8½% Ln. 1991 ...	£98¼	.....
9pc Cap Ln. 1996 ...	£100¼	.....
Fin. 13% 97/02 ...	£129	.....

TRADITIONAL OPTIONS
3-month call rates

Industrials	p
Allied-Lyons	35
Amstrad	16
BAT	36
BOC Grp.	30
BSR	8
BTR	22
Barclays	35
Beecham	42
Blue Circle	38
Boots	19
Bowaters	35
Brit Aerospace	35
Brit. Telecom	21
Burton Ord	21
Cadburys	32
Charter Cons	30
Comm Union	34
Courtaulds	34
FKI Babcock	12
FNFC	23
Gen Accident	85
GEC	15
Glaxo	85
Grand Met	45
GUS 'A'	95
Guardian	85
GKN	28
Hanson	15
Hawker Sidd	48
ICI	72
Jaguar	26
Ladbroke	38
Legal & Gen	25
Lex Service	33
Lloyds Bank	26
Lucas Inds	50
Marks & Spencer	17
Midland Bk	37
Morgan Grenfell	30
NEI	10
Nat West Bk	52
P & O Dfd	52
Plessey	16
Polly Peck	30
Racal Elect	32
RHM	30
Rank Org Ord	64
Reed Intnl	36
STC	24
Sears	11
TI	28
TSB	9
Tesco	14
Thorn EMI	60
Trust Houses	21
T&N	17
Unilever	42
Vickers	14
Wellcome	45

Property	
Brit Land	30
Land Securities	32
MEPC	32
Peachey	50

Oils	
Brit. Gas	15
Brit Petroleum	24
Burmah Oil	50
Charterhall	3
LASMO	40
Premier	7½
Shell	45
Ultramar	26

Mines	
Cons Gold	95
Lonrho	28
RTZ	35

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Deterioration in UK trade poses problems for sterling

By Colin Millham

THE MOST likely scenario for sterling is that a gradual accretion of bad news finally pushes the markets into collective panic, according to Mr Chris Johns, economist at Phillips and Drew.

He does not see an immediate collapse of the pound however, and believes the markets have over discounted any bad news on the August trade figures tomorrow.

Yield differentials are at present sufficient to prevent a rapid sterling sell off, and Mr Johns suggests it will take another truly awful number to provoke a sudden panic.

City economists seem to generally agree that the outlook for the pound depends heavily on reaction to the trade figures. Mr Johns adds that estimates of the current account deficit have been creeping up from around £1.5bn to nearer £2bn.

Phillips and Drew's forecast for the August current account deficit is £1.6bn, compared with £2.15bn in July, and a visible trade shortfall of £2.1bn, against £2.65bn.

Phillips and Drew suggests that the market is generally expecting a current account shortfall of £1.8bn, which is considerably above the median forecast from the survey by MMS International. The MMS survey points to a deficit of only £1.4bn on the current account.

Morgan Grenfell also believes the trade figures will be crucial for sterling and UK interest rates. An improvement on the July deficit is expected, but Morgan Grenfell says the range for the current account from a deficit of around £1bn to £3bn clearly reflects the degree of uncertainty surrounding the figures.

Morgan Grenfell's forecast for the current account shortfall is towards the low end of this range, at £1.28bn, on the assumption that non-oil export volumes continue to rise slowly, while non-oil import volumes fall back 8 p.c., after jumping 13.5 p.c. in July.

Mr Neil MacKinnon, at Chase Manhattan Securities, is also looking for an improvement in the UK trade position in August. He forecasts a current account deficit of £1.7bn, as imports reflect a more moderate increase in retail sales, and a fall back in car imports.

Mr MacKinnon also hopes the situation will improve, because the bulk of the Piper Alpha disaster in the North Sea was reflected in the July figures.

But despite some improvement in the August deficit Chase Manhattan forecasts the current account deficit will reach £14bn for the whole year.

This is almost 3 p.c. of gross domestic product, and virtually on the same scale as the US trade deficit.

Mr MacKinnon finds himself in the group of economists suggesting that the exchange rate implication for sterling over the medium term could be quite alarming.

Dr Gerard Lyons, chief UK economist at SBCI Savory Milln, says the current account deficit is explained by longer term structural problems in the UK economy, and is not a sign of economic strength.

He adds that these problems have been exacerbated by the strength of domestic demand this year, and by the policy stance of the authorities.

SBCI Savory Milln believes the current account shortfall could reach £15bn this year, raising questions about the sustainability of the UK's current growth cycle. Dr Lyons says that on whatever basis one analyses the poor performance on UK trade, it is clear there is a long term problem.

£ IN NEW YORK

Sept.23	Close	Previous Close
£ Spot	1.6705-1.6715	1.6685-1.6695
1 month	0.48-0.47pm	0.47-0.46pm
3 months	1.53-1.51pm	1.52-1.50pm
12 months	4.96-4.91pm	4.96-4.91pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

		Sept. 23	Previous
8.30	am	75.1	75.2
9.00	am	75.0	75.1
10.00	am	75.1	75.1
11.00	am	75.1	75.2
Noon		75.1	75.2
1.00	pm	75.0	75.2
2.00	pm	75.2	75.2
3.00	pm	75.1	75.2
4.00	pm	75.2	75.1

CURRENCY RATES

Sept 23	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.772114	0.661916
U.S Dollar	6.50	1.29082	1.10308
Canadian $	8.75	1.57299	1.34521
Austrian Sch.	4	17.0440	14.5728
Belgian Franc	7	50.7421	43.4201
Danish Krone	7½	9.29390	7.94716
Deutsche Mark	3½	2.42287	2.07137
Neth.Guilder	4	2.72944	2.33545
French Franc	9½	8.22640	7.05035
Italian Lira	12½	1803.27	1547.29
Japanese Yen	2½	173.486	148.420
Norway Krone	8	8.94538	7.64988
Spanish Peseta	-	160.970	137.610
Swedish Krona	8½	8.32321	7.12040
Swiss Franc	3	N/A	1.74949
Greek Drach.	20½	196.269	167.944
Irish Punt	-	0.902545	0.773116

*All SDR rates are for Sept.22

CURRENCY MOVEMENTS

Sept. 23	Bank of England Index	Morgan** Guaranty Changes %
Sterling	75.2	-17.2
U S Dollar	99.7	-8.5
Canadian Dollar	84.8	-2.5
Austrian Schilling	133.9	+9.9
Belgian Franc	97.9	-5.9
Danish Krone	89.0	+0.2
Deutsche Mark	144.2	+21.0
Swiss Franc	165.0	+19.2
Guilder	132.7	+13.5
French Franc	68.6	-15.2
Lira	44.8	-21.3
Yen	239.2	+76.9

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100)**Rates are for Sept.22.

OTHER CURRENCIES

Sept.23	£	$
Argentina	19.9020-20.0480	11.9200-12.0000
Australia	2.1230-2.1360	1.2715-1.2725
Brazil	563.00-566.15	337.20-338.85
Finland	7.4040-7.4255	4.4370-4.4390
Greece	251.30-255.70	150.95-153.45
Hong Kong	13.0370-13.0535	7.8110-7.8130
Iran	119.85*	70.65*
Korea(Sth)	1196.70-1206.35	717.00-722.80
Kuwait	0.48030-0.48080	0.28765-0.28775
Luxembourg	65.65-65.75	39.25-39.35
Malaysia	4.4480-4.4590	2.6655-2.6675
Mexico	3805.00-3825.00	2279.00-2289.00
N. Zealand	2.7095-2.7145	1.6230-1.6255
Saudi Ar.	6.2625-6.2680	3.7500-3.7510
Singapore	3.4040-3.4095	2.0390-2.0410
S. Af (Cm)	4.1375-4.1485	2.4820-2.4835
S. Af (Fn)	6.6140-6.7475	3.9605-4.0405
Taiwan	48.15-48.40	28.90-29.00
U.A.E.	6.1330-6.1385	3.6725-3.6725

*Selling rate

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.6715	1.6669	1.6564	1.6431	1.6222
D-mark	3.1350	3.1179	3.0811	3.1247	2.9448
French Fr.	10.678	10.674	10.667	10.657	10.642
Swiss Fr.	2.6500	2.6316	2.0920	2.6395	2.4551
Yen	224.75	223.56	220.91	217.13	210.46

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Sept.23	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.4201	+2.27	+0.96	±1.5344
Danish Krone	7.85212	7.94716	+1.21	-0.10	±1.5404
German D-Mark	2.05853	2.07137	+0.62	-0.69	±1.0981
French Franc	6.90403	7.05035	+2.12	+0.81	±1.3674
Dutch Guilder	2.31943	2.33545	+0.69	-0.62	±1.5012
Irish Punt	0.768411	0.773116	+0.61	-0.70	±1.6684
Italian Lira	1483.58	1547.29	+4.29	+3.51	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

Sept.23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6640-1.6725	1.6710-1.6720	0.48-0.45cpm	3.34	1.53-1.49pm	3.61
Canada	2.0285-2.0425	2.0385-2.0395	0.29-0.19cpm	1.41	0.88-0.75pm	1.60
Netherlands	3.52¼-3.54	3.52¼-3.53¼	1⅞-1⅝cpm	5.94	5¼-5⅛pm	6.37
Belgium	65.45-65.90	65.65-65.75	28-18cpm	4.20	80-69pm	4.54
Denmark	12.00¼-12.03½	12.02¼-12.03¼	4¼-3⅞orepm	4.30	12⅞-11⅞pm	3.95
Ireland	1.1650-1.1715	1.1680-1.1690	0.43-0.38ppm	4.16	1.36-1.24pm	4.45
W. Germany	3.12¼-3.11¼	3.11¼-3.11¼	1⅞-1¾pfpm	6.70	5½-5¼pm	6.86
Portugal	257.15-259.15	258.15-259.15	16-57cdis	-1.69	49-142dis	-1.48
Spain	207.70-208.80	208.50-208.80	19-4cpm	0.66	54-31pm	0.81
Italy	2337¼-2342½	2339½-2340½	1pm-3liredis	-0.51	6-parpm	0.51
Norway	11.54½-11.58¼	11.56¼-11.57¼	⅝-1¼oredis	-0.97	3-3⅞dis	-1.19
France	10.65-10.68½	10.67¼-10.68¼	3⅜-3¼cpm	3.86	11-10½pm	3.96
Sweden	10.75-10.78¼	10.77¼-10.78¼	1½-1orepm	1.39	5-4½pm	1.74
Japan	224¼-225¼	224¼-225¼	1¼-1⅛ypm	6.34	4-3⅞pm	6.90
Austria	21.99-22.10	22.06-22.10	11½-10¼gropm	6.08	35½-32½pm	6.14
Switzerland	2.64-2.65½	2.64½-2.65½	2-1⅞cpm	8.48	5¼-5⅛pm	8.49

Belgian rate is convertible francs. Financial franc 66.50-66.60. Six-month forward dollar 2.87-2.82cpm 12 months 4.98-4.88cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Sept.23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6640-1.6725	1.6710-1.6720	0.48-0.45cpm	3.34	1.53-1.49pm	3.61
Ireland†	1.4250-1.4310	1.4300-1.4310	0.12-0.17cdis	-1.22	0.35-0.45dis	-1.12
Canada	1.2185-1.2215	1.2205-1.2215	0.18-0.21cdis	-1.92	0.60-0.64dis	-2.03
Netherlands	2.1100-2.1195	2.1135-2.1145	0.49-0.47cpm	2.72	1.46-1.42pm	2.72
Belgium	39.25-39.40	39.25-39.35	4.00-2.00cpm	0.92	10.50-6.50pm	0.87
Denmark	7.18¼-7.21½	7.19¼-7.19¾	0.70-0.40orepm	0.92	0.70-0.40pm	0.31
W. Germany	1.8725-1.8800	1.8745-1.8755	0.52-0.49pfpm	3.23	1.56-1.51pm	3.27
Portugal	154¼-156	154½-154¾	55-75cdis	-5.84	175-225dis	-5.17
Spain	124.35-125.20	124.50-124.60	25-35cdis	-2.89	90-105dis	-3.13
Italy	1399-1404¼	1399¾-1400¼	4.00-5.50liredis	-3.86	10.00-12.20dis	-3.17
Norway	6.91¼-6.94¼	6.91¼-6.92¼	2.40-2.55oredis	-4.29	8.35-8.55dis	-4.89
France	6.37¼-6.40½	6.38¼-6.39	0.30-0.23cpm	0.50	0.65-0.45pm	0.34
Sweden	6.44-6.46	6.44½-6.45	1.00-1.10oredis	-1.95	3.05-3.25dis	-1.95
Japan	134.30-134.80	134.40-134.50	0.35-0.33ypm	3.03	1.11-1.07pm	3.24
Austria	13.19-13.22¼	13.19¾-13.20¼	3.20-2.90gropm	2.77	9.00-8.00pm	2.58
Switzerland	1.5820-1.5875	1.5845-1.5855	0.67-0.64cpm	4.96	1.93-1.88pm	4.81

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 39.75-39.85.

EURO-CURRENCY INTEREST RATES

Sept.23	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	11-10¾	11⅛-11	11¼-11⅛	12¼-12⅛	12⅜-12¼	12¼-12⅛
US Dollar	8¼-8	8¼-8⅛	8⅜-8¼	8⅝-8½	8¾-8⅝	8⅞-8¾
Can. Dollar	10-9¾	10-9¾	10⅛-9⅞	10⅜-10¼	10⅜-10¼	10⅜-10¼
D. Guilder	5½-5¼	5⅝-5½	5⅝-5½	5¾-5⅝	5⅞-5¾	5⅞-5¾
Sw. Franc	2¾-2½	3⅜-3⅛	3⅜-3¼	3⅝-3½	3⅞-3¾	3⅞-3¾
Deutschmark	4¾-4½	4⅞-4¾	4⅞-4¾	4⅞-4¾	5⅛-5	5⅛-5
Fr. Franc	7½-7¼	7⅜-7¼	7⅝-7½	7⅝-7½	8⅛-8	8⅛-8
Italian Lire	12-10	13½-11½	11½-11¼	11⅝-11¼	11½-11¼	11⅝-11¼
B. Fr. (Fin)	7¾-7½	7⅝-7½	7¼-7⅛	7¼-7⅛	7¾-7⅝	7⅝-7½
B. Fr. (Con)	7⅜-7⅛	7¼-7	7⅜-7	7½-7¼	7⅝-7½	7⅝-7½
Yen	4⅝-4½	4⅝-4½	5⅛-5	5⅛-5	5⅛-4⅞	5⅛-4⅞
D. Krone	7⅜-7⅛	7⅜-7⅛	8-7¾	8⅛-7¾	8⅛-8	8⅛-8
Asian $Sing	8⅛-8	8¼-8⅛	8⅜-8¼	8⅝-8½	8¾-8⅝	8⅞-8¾

Long term Eurodollars; two years 9¼-8⅞ per cent; three years 9¼-9⅛ per cent; four years 9⅜-9¼ per cent; five years 9⅝-9½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Sept.23	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.672	3.135	224.8	10.68	2.650	3.533	2340	2.039	65.70
$	0.598	1	1.875	134.4	6.388	1.585	2.113	1400	1.219	39.29
DM	0.319	0.533	1	71.71	3.407	0.845	1.127	746.4	0.650	20.96
YEN	4.448	7.438	13.95	1000.	47.51	11.79	15.72	10409	9.070	292.3
F Fr.	0.936	1.566	2.935	210.5	10	2.481	3.308	2191	1.909	61.52
S Fr.	0.377	0.631	1.183	84.83	4.030	1	1.333	883.0	0.769	24.79
H Fl.	0.283	0.473	0.887	63.63	3.023	0.750	1	662.3	0.577	18.60
Lira	0.427	0.715	1.340	96.07	4.564	1.132	1.510	1000.	0.871	28.08
C $	0.490	0.820	1.538	110.3	5.238	1.300	1.733	1148	1	32.22
B Fr.	1.522	2.545	4.772	342.2	16.26	4.033	5.377	3562	3.104	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

PHILADELPHIA SE £/$ OPTIONS
£31,250 (cents per £1)

Strike Price	Calls Oct	Calls Nov	Calls Dec	Calls Mar	Puts Oct	Puts Nov	Puts Dec	Puts Mar
1.600	6.95	7.03	7.35	7.93	0.05	0.58	1.30	2.82
1.625	4.56	4.93	5.46	6.27	0.23	1.12	2.06	3.81
1.650	2.55	3.23	3.92	4.91	-	1.97	2.99	5.00
1.675	1.23	2.03	2.70	3.74	2.00	3.12	4.32	6.40
1.700	0.46	1.16	1.88	2.82	3.53	4.65	5.91	7.96
1.725	0.10	0.59	1.21	2.08	5.66	6.57	7.71	9.57
1.750	0.04	0.25	0.73	1.59	8.01	0.72	9.61	11.42

Previous day's open int: Calls 396,398 Puts 353,426
Previous day's volume: Calls 23,579 Puts 32,541

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls-settlements Oct	Nov	Dec	Mar	Puts-settlements Oct	Nov	Dec	Mar
1.650	2.70	3.50	4.15	5.10	1.30	2.40	3.60	5.65
1.700	0.75	1.40	2.10	3.05	4.20	5.30	6.50	8.55
1.750	0.40	0.65	1.05	1.85	0.80	9.45	10.40	12.25
1.800	0.35	0.45	0.65	1.15	13.75	14.15	14.85	16.40
1.850	0.35	0.45	0.50	0.80	18.70	19.05	19.60	20.85
1.900	-	-	0.50	1.55	-	-	22.50	25.30
1.950	-	-	0.45	1.40	-	-	17.68	20.40

Estimated volume total, Calls N/A Puts N/A
Previous day's open int: Calls 211 Puts 192

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Dec	Mar	Puts-settlements Dec	Mar
88	640	714	2	4
90	442	523	4	13
92	251	343	13	33
94	122	219	48	309
96	29	115	155	205
98	10	40	336	330
100	3	17	529	507

Estimated volume total, Calls 1756 Puts 1033
Previous day's open int. Calls 18688 Puts 21428

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Dec	Mar	Puts-settlements Dec	Mar
80	736	720	6	26
82	546	544	16	50
84	362	416	32	122
86	228	302	62	208
88	120	205	154	313
90	39	123	309	429
92	18	54	452	560

Estimated volume total, Calls 280 Puts 55
Previous day's open int. Calls 6674 Puts 3261

LIFFE FT-SE INDEX FUTURES OPTIONS

Strike Price	Calls-settlements Sep	Oct	Puts-settlements Sep	Oct
16500	1330	1516	0	4
17000	830	1042	0	32
17500	330	626	0	116
18000	0	315	170	305
18500	0	128	670	618
19000	0	41	1170	1031
19500	0	30	1670	1500

Estimated volume total, Calls 0 Puts 0
Previous day's open int. Calls 4 Puts 101

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls-settlements Oct	NOV	Puts-settlements Oct	NOV
150	—	—	—	—
155	1215	1215	0	10
160	715	715	9	56
165	273	334	93	201
170	56	122	376	489
175	5	32	825	899
180	0	6	1320	1373

Estimated volume total, Calls 0 Puts 210
Previous day's open int. Calls 42 Puts 3144

LIFFE EURODOLLAR OPTIONS
£1m points of 100%

Strike Price	Calls-settlements Dec	Mar	Puts-settlements Dec	Mar
9050	81	96	5	17
9075	60	75	9	21
9100	42	58	16	29
9125	26	44	25	40
9150	16	32	40	53
9175	9	22	58	68
9200	5	14	29	85

Estimated volume total, Calls 0 Puts 0
Previous day's open int. Calls 2622 Puts 3884

LIFFE SHORT STERLING

Strike Price	Calls-settlements Dec	Mar	Puts-settlements Dec	Mar
8750	61	119	26	25
8775	46	101	36	32
8800	34	84	49	40
8825	24	69	64	50
8850	15	55	80	61
8875	10	43	100	74
8900	6	33	121	89

Estimated volume total, Calls 1655 Puts 728
Previous day's open int. Calls 12027 Puts 12466

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Sep	94-11	94-12	94-01	93-29
Dec	94-19	94-23	94-02	94-07

Estimated Volume 20172 (11686)
Previous day's open int. 27839 (27750)

THREE MONTH STERLING
£500,000 points of 100%

	Close	High	Low	Prev.
Dec	87.85	87.87	87.73	87.80
Mar	88.44	88.45	88.32	88.37
Jun	88.72	88.71	88.69	88.66
Sep	88.97	88.90	88.90	88.89

Est. Vol. (inc. figs. not shown) 12648 (14981)
Previous day's open int. 42404 (39812)

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Sep	178.30	178.35	177.50	177.90
Dec	180.10	180.10	179.40	179.70
Mar				

Estimated Volume 1702 (1757)
Previous day's open int. 14791 (14429)

THREE MONTH EURODOLLAR
$1m points of 100%

	Close	High	Low	Prev.
Dec	91.26	91.35	91.25	91.37
Mar	91.29	91.37	91.29	91.39
Jun	91.10	91.18	91.09	91.18
Sep	90.87			90.97

Est. Vol. (inc. figs. not shown) 4593 (5843)
Previous day's open int. 27802 (27706)

US TREASURY BONDS 8%
$100,000 32nds of 100%

	Close	High	Low	Prev.
Dec	87-15	88-00	87-12	88-07
Mar	86-29			87-21
Jun				

Estimated Volume 13635 (5136)
Previous day's open int. 9717 (9554)

CURRENCY FUTURES

LIFFE-STERLING £25,000 $ per £

	Close	High	Low	Prev.
Dec	1.6575	1.6508	1.6508	1.6554
Mar	1.6435			1.6420
Jun	1.6330			1.6310

Estimated Volume 5 (0)
Previous day's open int. 175 (175)

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6715	1.6669	1.6564	1.6431	1.6222

CHICAGO

U.S. TREASURY BONDS (CBT) 8%
$100,000 32nds of 100%

	Close	High	Low	Prev.
Dec	87-30	87-31	87-12	87-29
Mar	87-12	87-13	86-27	87-11
Jun	86-27	86-27	86-10	86-26
Sep	86-10	86-10	85-29	86-09
Dec	85-26	85-26	85-11	85-25
Mar	85-11	-	-	85-10
Jun	84-29	-	-	84-28
Sep	-	-	-	86-19
Dec	84-01	-	-	84-00
Mar	83-20	-	-	83-19
Jun	83-07	-	-	83-05

U.S. TREASURY BILLS (IMM)
$1m points of 100%

	Close	High	Low	Prev.
Dec	92.72	92.77	92.69	92.77
Mar	92.70	92.74	92.65	92.74
Jun	92.53	92.58	92.50	92.58
Sep	92.33	-	-	92.39
Dec	92.15	-	92.14	92.21
Mar	92.17	-	92.15	92.23

SWISS FRANC (IMM)
SFr 125,000 $ per SFr

	Close	High	Low	Prev.
Dec	0.6389	0.6393	0.6370	0.6383
Mar	0.6455	0.6460	0.6430	0.6449
Jun	0.6531	0.6531	0.6505	0.6525

JAPANESE YEN (IMM)
Y12.5m $ per Y100

	Close	High	Low	Prev.
Dec	0.7502	0.7504	0.7479	0.7481
Mar	0.7564	0.7568	0.7568	0.7543
Jun	0.7636	0.7636	-	0.7615

DEUTSCHE MARK (IMM)
DM125,000 $ per DM

	Close	High	Low	Prev.
Dec	0.5379	0.5380	0.5360	0.5372
Mar	0.5419	0.5423	0.5402	0.5412
Jun	0.5461	-	-	0.5454

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

	Close	High	Low	Prev.
Dec	91.30	91.34	91.24	91.34
Mar	91.33	91.37	91.27	91.37
Jun	91.12	91.16	91.08	91.16
Sep	90.89	90.94	90.86	90.94
Dec	90.69	90.74	90.67	90.74
Mar	90.69	90.74	90.67	90.74
Jun	90.62	90.67	90.60	90.67
Sep	90.55	90.60	90.52	90.60

STANDARD & POORS 500 INDEX
$500 times index

	Close	High	Low	Prev.
Dec	272.25	273.15	270.40	272.10
Mar	274.70	275.65	272.90	274.50
Jun	276.85	277.80	275.00	276.60

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
‡85p	F.P.	-	128	73	Barlo Group Ir10p	74		a050%	2.8	5.6	12.5
§145	F.P.	-	173	145	Christie Group 2p	163	-2	13.5	3.1	2.9	15.0
§40	F.P.	-	41	38	Exmoor Dual Inv. Tst.	38		1.2	-	4.1	-
§100	F.P.	-	100	100	Do. Income 100p	100		W6.9	-	9.2	-
120	F.P.	-	152	123	National-Telecom 5p	140		12.0	4.1	1.9	13.7
§140	F.P.	27/7	161	135	‡Reject Shop 5p	138		13.15	2.2	2.1	17.8
118	F.P.	14/10	123	118	Ritz Design Group 5p	118		12.0	4.3	2.3	11.7
140	F.P.	5/8	141	109	Rockfort Group 20p	112		R3.9	3.1	4.6	7.3
§125	F.P.	19/8	133	118	Savills 5p	119		L3.0	2.5	3.3	13.4
§115	F.P.	-	128	115	Thompson Clive Inv. 50p	126	-2	-	-	-	-
-	F.P.	-	23	14	Waverley Mining Warrants	23		-	-	-	-

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price £	+ or -
100	F.P.	-	100½	99¼	A.C. Hldgs. 11pc Cv. Un. Ln. 1994/98	100½	
100.4p	F.P.	-	101p	100½p	Allida Hldgs 9¼pc Cm Rd Pf 2008/13	100½p	-¼
‡	F.P.	-	96p	91p	Alexon Group 6.25p Cv. Rd. Pf. 10p	91p	
100p	F.P.	-	115p	110p	BBLP Group 8p Cv Rd Pf 10p	113p	
101.09	F.P.	-	102½p	100½p	Brent Chemicals Int. 9pc Cm Rd Pf	102½p	+½
100p	F.P.	-	106p	91p	Dares Estates 7.75pc Cnv Cm Rd Prf	98p	
‡	F.P.	-	104p	100p	Dowty Grp 7pc Cv. Cm. Rd. Pf	103p	
§100p	F.P.	-	101p	99p	Exmoor Dual Inv.Tst. Zero Cn Prf	100¼p	+¼
100p	F.P.	-	100p	95p	‡Kunick 7p (Net) Cv. Cm. Rd. Pf 5p	95p	
§101.2	F.P.	9/9	101½p	99p	Lon & Edin Tst 8⅞pc 1st Cm Rd Pf 2013	100½p	+½
§100.9	F.P.	-	100½p	98½p	McCarthy & Stone 8.75pc Rd. Pf. 2003	100⅛p	+½
-	F.P.	-	100	98⅞	N'wide Ang. 11⅝pc 7.8.89	98⅞	
-	F.P.	-	100	98½	Do. 11⅝pc 29.8.89	99⅜	-
-	F.P.	-	100	99⅞	Do. 12⅛pc 18.9.89	99⅝	
100p	F.P.	29/9	120p	99p	Pleasurama 7.75pc Cv Cm Rd Pf	102p	-½
100p	Nil	1/11	2pdm	1pm	Scantronic 7.25pCv. Rd. Pf.	1pm	-½
100p	F.P.	-	104p	98p	Tamaris 8½pc Cv Rd. Pf. 2003	100p	
§100p	F.P.	-	96p	93p	York Trust Grp. Rd. Cm. Cv. Pf. 20p	93p	

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+ or -
Ir180	Nil	27/10	73pm	65pm	Allied Irish Banks	73pm	+4
155	Nil	26/9	37pm	13pm	Blagden Industries	35pm	+1
15	Nil	-	5½pm	4½pm	Charterhall 5p	5pm	-½
150	Nil	28/10	10pm	7pm	EBC Group 50p	7pm	-1
145	Nil	10/10	19pm	15pm	Ellis & Everard	15pm	-1
10	Nil	5/10	14pm	6pm	FF & H Group 10p	9pm	+1
325	Nil	8/11	27pm	19pm	First Technology	20pm	-1
55	Nil	28/10	4pm	½pm	Five Oaks Investments 5p	¾pm	+¼
20	Nil	4/11	8½pm	6pm	*Honeybill Group 5p	8pm	
100	Nil	21/10	200pm	150pm	Jermyn Inv. Co.	150pm	-50
75	Nil	26/10	4pm	2pm	Leisuretime Intl. 10p	2pm	
10	Nil	30/9	13pm	6pm	Plyne Tech. 5p	7pm	+1
200	Nil	11/11	40pm	7½pm	Ultramar	36pm	-½
125	Nil	4/11	90pm	38pm	Wassall 5p	86pm	+2

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¶ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. ‡‡ Reintroduction. ◊ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ◆ Unlisted securities market. ⊕ Official London listing. □ Including warrants entitlement. * Third Market.

EUROPEAN OPTIONS EXCHANGE

Series		Nov. 88 Vol	Nov. 88 Last	Feb. 89 Vol	Feb. 89 Last	May 89 Vol	May 89 Last	Stock
GOLD C	$400	18	14.50	9	22.50	-	-	$400
GOLD C	$420	103	5.50	66	14	-	-	$400
GOLD C	$440	38	2.50	142	8.80	4	14.50 a	$400
GOLD C	$460	65	1	6	5.70	25	9	$400
GOLD C	$480	-	-	27	3	-	-	$400
GOLD C	$500	-	-	70	1.50	-	-	$400
GOLD P	$390	12	6.20 A	18	9	10	11.50	$400
GOLD P	$400	74	8	25	13.80	-	-	$400
GOLD P	$420	85	20.40	2	21	60	24.50	$400
		Oct. 88		Nov. 88		Dec. 88		
EOE Index C	Fl. 200	50	35.20	-	-	-	-	Fl. 235.88
EOE Index C	Fl. 230	27	8	12	9.80 B	-	-	Fl. 235.88
EOE Index C	Fl. 235	184	5.20	10	8.20 A	1	9.70	Fl. 235.88
EOE Index C	Fl. 240	326	2.90	41	5.70	5	7.50	Fl. 235.88
EOE Index C	Fl. 245	83	1.50	10	3.50 A	-	-	Fl. 235.88
EOE Index P	Fl. 225	10	1.40	219	3.50 A	-	-	Fl. 235.88
EOE Index P	Fl. 230	72	2.70	20	4.80	-	-	Fl. 235.88
EOE Index P	Fl. 235	267	4.50	42	7.20	-	-	Fl. 235.88
EOE Index P	Fl. 240	346	7.40	4	10	-	-	Fl. 235.88
		Nov. 88		Feb. 89		May 89		
OBL Index C	Fl. 95	-	-	40	4.60	-	-	Fl. 100.43
OBL Index C	Fl. 97.50	-	-	-	-	310	2.50	Fl. 100.43
		Oct. 88		Nov. 88		Dec. 88		
£/Fl C	Fl. 355	30	1.50	-	-	-	-	Fl. 353.29
$/Fl C	Fl. 205	30	6.50	-	-	-	-	Fl. 211.55
$/Fl C	Fl. 210	20	2.70	-	-	18	4.70	Fl. 211.55
$/Fl C	Fl. 215	77	0.80	-	-	-	-	Fl. 211.55
$/Fl C	Fl. 220	10	0.25	10	0.95	36	1.30	Fl. 211.55
		Oct. 88		Jan. 89		Apr. 89		
ABN C	Fl. 50	50	0.10	154	0.70	-	-	Fl. 42
ABN P	Fl. 45	349	3.30	300	3.70	-	-	Fl. 42
AEGON C	Fl. 90	-	-	24	3.50 A	-	-	Fl. 85.60
AEGON P	Fl. 85	26	1.90	27	3.80	-	-	Fl. 85.60
AHOLD C	Fl. 85	20	0.80	43	3.20	-	-	Fl. 82.30
AKZO C	Fl. 150	446	1.60	60	6.40	5	9.50	Fl. 143
AKZO P	Fl. 140	114	2	37	6.10	8	8	Fl. 143
AMEV C	Fl. 55	331	1.90	656	4.50	6	5.50	Fl. 55.30
AMEV P	Fl. 55	48	1.50	24	3	-	-	Fl. 55.30
AMRO C	Fl. 80	6	0.30	50	2	10	3.50	Fl. 73.30
AMRO P	Fl. 65	-	-	-	-	39	1.50	Fl. 73.30
BUHRMANN-T C	Fl. 55	57	0.40	5	2.30	20	3.60	Fl. 52.60
BUHRMANN-T P	Fl. 50	3	0.40	23	1.50	-	-	Fl. 52.60
ELSEVIER C	Fl. 60	179	2	37	4	8	5.40	Fl. 60.90
ELSEVIER P	Fl. 60	16	1.10	6	2.90	-	-	Fl. 60.90
GIST-BROC. C	Fl. 40	127	0.60	125	1.90	5	3.40	Fl. 37.40
GIST-BROC. P	Fl. 35	2	0.50	146	1.70	-	-	Fl. 37.40
HEINEKEN C	Fl. 140	19	3	4	7.50	-	-	Fl. 138.50
HOOGOVENS C	Fl. 70	146	0.40	18	2.10	-	-	Fl. 62
HOOGOVENS P	Fl. 60	11	1.30	183	3.70	-	-	Fl. 62
KLM C	Fl. 35	117	0.80	39	2.50	8	3.70	Fl. 34.30
KLM P	Fl. 40	24	5.90	215	6	9	6.30	Fl. 34.30
KNP C	Fl. 170	120	3.90	12	10.30	-	-	Fl. 169
KNP P	Fl. 160	26	1.50	5	4.30	-	-	Fl. 169
NEDLLOYD C	Fl. 220	30	6.50 A	11	14.90	-	-	Fl. 222
NAT.NED. C	Fl. 65	287	1.50 A	1133	3.40	12	4.90	Fl. 63.90
PHILIPS C	Fl. 35	113	0.30	107	1.40	33	2.20	Fl. 32.40
PHILIPS P	Fl. 30	55	0.30	44	1.10	73	2.20	Fl. 32.40
ROYAL DUTCH C	Fl. 240	339	0.60	38	3.90	21	7.50	Fl. 222.50
ROYAL DUTCH P	Fl. 220	782	2.30	154	5.10	2	6.50	Fl. 222.50
UNILEVER C	Fl. 110	215	6.20	14	9	2	11.60 a	Fl. 114.80
UNILEVER P	Fl. 130	-	-	180	17	-	-	Fl. 114.80
VAN OMMEREN C	Fl. 30	-	-	21	1.90	8	3	Fl. 29.80

TOTAL VOLUME IN CONTRACTS: 17,846

A=Ask B=Bid C=Call P=Put

MONEY MARKETS

A rather confusing picture

A RATHER confusing picture was painted by last week's UK economic news. Bank and building society lending rose only £5.8bn in August, against expectations of around £9bn. This came as a relief to dealers in London, taking pressure off interest rates.

The August rise in sterling M0 money supply was in line with expectations, but this was regarded as historic, and the market was more concerned with the likely figure for September.

The weekly bank return from the Bank of England has suddenly become the focus of attention, because this indicates the amount of notes in circulation, which in turn comprises about 85 p.c. of M0 money supply.

From the level of notes in circulation economists can attempt a forecast of the monthly rise in M0. This was growing at a year-on-year rate of 7.8 p.c. in August, but if the weekly bank returns prove a reliable guide, the year-on-year rate is likely to climb to 8 p.c. in September.

Growth in M0 money supply is regarded as an important early pointer to inflationary pressure in the economy, and it was suggested that if this exceeds 8 p.c. it could lead to a further rise in bank base rates.

Sentiment in London this week will be dominated by tomorrow's August UK trade figures, and the reaction of sterling.

The pound held up well at the end of last week, closing above a technical support level of $1.67, but slightly below another of DM3.1775.

On this basis it appears that rather two much bad news is built into sterling's value, at least in the short term.

UK clearing bank base lending rate
12 per cent
from August 25 & 26

FT LONDON INTERBANK FIXING

(11.00 a.m. Sept 23) 3 months US dollars		6 months US Dollars	
bid 8⅛	offer 8¼	bid 8¼	offer 8⅜

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Sept.23	Sept.16		Sept.23	Sept.16
Bills on offer	£400m	£100m	Top accepted rate of discount	11.6319%	11.6720%
Total of applications	£2100m	£483m	Average rate of discount	11.6039%	11.6348%
Total allocated	£400m	£100m	Average yield	11.9498%	11.9824%
Minimum accepted bid	£97.100	£97.095	Amount on offer at next tender	£400m	£400m
Allotment at minimum level	60%	10%			

WEEKLY CHANGE IN WORLD INTEREST RATES

	Sept.23	change		Sept.23	change
LONDON			NEW YORK		
Base rates	12	Unch'd	Prime rates	10	Unch'd
7 day Interbank	11⅛	-⅛	Federal Funds	8¼	+⅛
3-month Interbank	12⅛	-⅛	3 Mth. Treasury Bills	7.46	+0.06
Treasury Bill Tender	11.6039	-0.0309	6 Mth. Treasury Bills	7.84	+0.09
Band 1 Bills	11⅞	Unch'd	3 Mth. CD	8.175	-0.050
Band 2 Bills	11⅞	Unch'd	FRANKFURT		
Band 3 Bills	11¾	Unch'd	Lombard	5.00	Unch'd
Band 4 Bills	11⅞	Unch'd	One mth. Interbank	4.775	-0.050
3 Mth. Treasury Bill	11¾	+⅛	Three month	4.875	-0.050
1 Mth. Bank Bills	11⅞	-⅛	PARIS		
3 Mth. Bank Bills	11⅞	-⅛	Intervention Rate	7.00	+0.25
TOKYO			One mth. Interbank	7½	-1/16
One month Bills	4.46875	+0.0625	Three month	7¾	-1/16
Three month Bills	-	-	MILAN		
BRUSSELS			One month	11½	Unch'd
One month	7⅞	Unch'd	Three month	11⅝	Unch'd
Three month	7⅛	Unch'd	DUBLIN		
AMSTERDAM			One month	7⅞	-⅛
One month	5.47	-0.04	Three month	7¾	-⅛
Three month	5.55	Unch'd			

MONEY RATES

NEW YORK

(4pm)

		Treasury Bills and Bonds			
Prime rate	10	One month	6.98	Three year	8.56
Broker loan rate	9¼-¼	Two month	7.12	Four year	8.65
Fed funds	8¼-⅛	Three month	7.46	Five year	8.70
Fed funds at intervention	8¼	Six month	7.84	Seven year	8.85
		One year	8.10	10-year	8.96
		Two year	8.46	30-year	9.05

Sept.23	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	4.70-4.80	4.70-4.85	4.75-4.90	4.80-4.95	5.05-5.20	5.00
Paris	7⅛-7¼	7⅜-7½	7½-7⅝	7⅝-7¾	7⅞-8	7.00
Zurich	1⅝-1⅞	3-3¼	-	3⅛-3⅜	-	-
Amsterdam	5.43-5.56	5.43-5.50	-	5.50-5.60	-	-
Tokyo	3.90625	4.46875	-	-	-	-
Milan	10½-10⅞	11¼-11½	-	11½-11⅞	-	-
Brussels	5.50	7⅛-7¼	-	7⅝-7½	-	-
Dublin	7⅛-7⅜	7¼-7½	7⅝-7⅞	7⅝-7⅞	8-8¼	-

LONDON MONEY RATES

Sept.23	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	14	11¼	11⅝	12⅛	12⅜	12⅛
Interbank Bid	10½	10⅞	11½	12	12¼	12
Sterling CDs	-	-	11⅝	12⅛	12¼	11⅞
Local Authority Deps.	11⅛	11¼	11⅝	12	12⅛	12
Local Authority Bonds	-	-	11⅞	12⅛	12½	12½
Discount Mkt Deps.	13	11	11¼	11⅞	-	-
Company Deposits	-	-	11¾	12¼	12⅛	12¼
Finance House Deposits	-	-	12	12⅛	12⅜	12⅜
Treasury Bills (Buy)	-	-	11⅛	11⅛	-	-
Bank Bills (Buy)	-	-	11⅞	11⅞	11⅞	-
Fine Trade Bills (Buy)	-	-	12⅛	12⅛	12⅛	-
Dollar CDs	-	-	8.15-8.10	8.20-8.15	8.45-8.40	8.70-8.65
SDR Linked Dep Offer	-	-	7⅛	7⅜	7⅝	7⅞
SDR Linked Dep Bid	-	-	7	7¼	7½	7¾
ECU Linked Dep Offer	-	-	7⅞	7⅝	7⅞	7⅞
ECU Linked Dep Bid	-	-	7⅛	7½	7⅞	7¾

Treasury Bills (sell): one-month 11⅛ per cent; three months 11⅛ per cent; Bank Bills (sell): one-month 11⅞ per cent; three months 11⅞ per cent; Treasury Bills; Average tender rate of discount 11.6039 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day Aug.31, 1988. Agreed rates for period September 26, 1988 to October 25, 1988. Scheme I: 12.27 p.c., Schemes II & III: 12.72 p.c. Reference rate for period July 30, 1988 to August 31, 1988. Scheme IV&V: 11.364 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 11 from September 1, 1988: Bank Deposit Rates for sums at seven days notice 3.75 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7½ per cent; one-three months 9 per cent; three-six months 9 per cent; six-nine months 9½ per cent; nine-twelve months 9½ per cent; Under £100,000 7 per cent from July 5, 1988. Deposits withdrawn for cash 5 per cent.

BASE LENDING RATES

	%		%		%
ABN Bank	12	City Merchants Bank	12	NatWestminster	12
Adam & Company	12	Clydesdale Bank	12	Northern Bank Ltd	12
AAB - Allied Arab Bk	12	Comm. Bk. N. East	12	Norwich Gen. Trust	12
Allied Irish Bank	12	Co-operative Bank	*12	PRIVATbanken Limited	12
● Henry Ansbacher	12	Coutts & Co	12	Provincial Bank PLC	13
ANZ Banking Group	12	Cyprus Popular Bk	12	R. Raphael & Sons	12
Associates Cap Corp	12	Dunbar Bank PLC	12	Roxburghe G'rantee	12½
Authority Bank	12	Duncan Lawrie	12	Royal Bk of Scotland	12
● B & C Merchant Bank	12	Equatorial Bank plc	12	Royal Trust Bank	12
Banco de Bilbao	12	Exeter Trust Ltd	12½	● Smith & Williamson Secs.	12
Bank Hapoalim	12	Financial & Gen. Bank	12	Standard Chartered	12
Bank Leumi (UK)	12	First National Bank Plc.	13	TSB	12
Bank Credit & Comm	12	● Robert Fleming & Co.	12	UDT Mortgage Exp	‡12.75
Bank of Cyprus	12	Robert Fraser & Ptnrs.	12½	United Bk of Kuwait	12
Bank of Ireland	12	Girobank	12	United Mizrahi Bank	12
Bank of India	12	● Guinness Mahon	12	Unity Trust Bank Plc	12
Bank of Scotland	12	HFC Bank plc	12	Western Trust	12
Banque Belge Ltd	12	● Hambros Bank	12	Westpac Bank Corp.	12
Barclays Bank	12	Heritable & Gen Inv Bnk.	12	Whiteaway Laidlaw	12½
Benchmark Bank PLC	12	● Hill Samuel	§12	Yorkshire Bank	12
Berliner Bank AG	12	C. Hoare & Co.	12		
Brit Bk of Mid East	12	Hongkong & Shangh.	12		
● Brown Shipley	12	● Leopold Joseph & Sons	12		
Business Mtge Tst	12½	Lloyds Bank	12		
CL Bank Nederland	12	McDonnell Douglas Bnk	12.5		
Central Capital	12	Meghraj Bank Ltd	12		
● Charterhouse Bank	12	Midland Bank	12		
Citibank NA	12	Mount Bnkg Corp.	12		
		Nat Bk. of Kuwait	12		

● Members of British Merchant Banking & Securities Houses Association. * 7 day deposits 4.38% Savewise 7.16%. Top Tier-£10,000 + instant access 9.0% ‡ Mortgage base rate. § Demand deposit 7%. Mortgage 12.375% - 12.75%

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY SEPTEMBER 23 1988 US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY SEPTEMBER 22 1988 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1988 High	1988 Low	Year ago (approx)
Australia (85)	139.49	+0.9	123.73	118.01	4.07	138.26	122.93	117.34	152.31	91.16	175.32
Austria (16)	87.52	+0.2	77.63	85.31	2.45	87.38	77.69	85.35	98.18	83.72	100.75
Belgium (63)	120.37	-1.3	106.77	118.15	4.27	121.97	108.44	119.86	139.89	99.14	127.84
Canada (125)	118.35	+0.2	104.97	104.64	3.25	118.09	104.99	104.24	128.91	107.06	136.83
Denmark (39)	130.12	+0.5	115.42	127.34	2.35	129.48	115.12	126.97	132.72	111.42	116.66
Finland (26)	115.66	-0.2	102.59	107.73	1.63	115.95	103.09	107.95	139.53	106.78	—
France (128)	96.28	-0.1	85.40	96.47	3.36	96.40	85.71	96.70	99.62	72.77	111.74
West Germany (100)	79.14	+0.2	70.20	77.15	2.40	78.99	70.23	77.16	80.79	67.78	100.60
Hong Kong (46)	100.35	+0.0	89.00	100.64	4.85	100.30	89.18	100.59	111.86	84.90	158.08
Ireland (18)	129.07	-0.1	114.48	127.14	3.90	129.15	114.83	127.53	144.25	104.60	145.97
Italy (100)	72.30	+1.3	64.13	75.59	2.66	71.38	63.46	74.73	81.74	62.99	91.53
Japan (456)	156.89	+0.1	139.16	133.34	0.55	156.71	139.34	133.34	177.27	133.61	143.58
Malaysia (36)	135.96	-0.6	120.60	139.63	2.86	136.81	121.63	140.60	154.17	107.83	173.70
Mexico (13)	158.08	+1.6	140.21	394.76	1.38	155.53	138.28	388.39	180.07	90.07	379.89
Netherland (38)	101.39	-0.4	89.93	97.82	4.98	101.82	90.53	98.45	110.66	95.23	123.44
New Zealand (20)	70.89	+0.4	62.88	61.15	6.20	70.61	62.78	61.00	84.05	64.42	133.54
Norway (25)	112.36	+0.1	99.66	105.54	2.84	112.28	99.83	105.65	132.23	98.55	179.10
Singapore (26)	118.09	-1.4	104.74	111.02	2.47	119.79	106.51	112.59	135.89	97.99	162.00
South Africa (60)	102.47	+2.0	90.89	89.60	4.79	100.46	89.32	87.84	139.07	98.26	186.84
Spain (43)	135.58	-0.3	120.26	127.93	3.54	135.96	120.88	128.70	164.47	130.73	160.38
Sweden (35)	120.92	+0.4	107.25	115.41	2.47	120.44	107.08	115.09	125.50	96.92	130.29
Switzerland (55)	77.29	+1.0	68.55	75.94	2.23	76.51	68.03	75.28	86.75	74.13	108.13
United Kingdom (322)	124.62	+0.4	110.54	110.54	4.73	124.09	110.33	110.33	141.18	120.66	157.70
USA (580)	110.37	+0.2	97.90	110.37	3.62	110.12	97.91	110.12	112.47	99.19	130.69
Europe (1008)	103.22	+0.3	91.56	96.90	3.83	102.94	91.52	96.84	110.82	97.01	128.12
Pacific Basin (669)	153.92	+0.1	136.52	131.35	0.77	153.72	136.67	131.33	172.26	130.81	145.01
Euro-Pacific (1677)	133.66	+0.2	118.55	117.55	1.73	133.42	118.63	117.51	147.53	120.36	138.31
North America (705)	110.78	+0.2	98.26	110.03	3.59	110.53	98.28	109.78	113.29	99.78	131.01
Europe Ex. UK (686)	89.79	+0.2	79.65	88.58	3.10	89.66	79.72	88.60	92.99	80.27	109.75
Pacific Ex. Japan (213)	118.14	+0.5	104.79	106.53	4.31	117.61	104.57	106.25	128.27	87.51	162.73
World Ex. US (1875)	132.84	+0.2	117.83	116.95	1.80	132.58	117.88	116.88	146.49	120.26	138.93
World Ex. UK (2133)	124.02	+0.2	110.01	115.08	2.17	123.80	110.07	114.96	131.77	111.77	133.55
World Ex. So. Af. (2395)	124.19	+0.2	110.16	114.81	2.39	123.95	110.21	114.69	132.39	113.26	135.36
World Ex. Japan (1999)	108.36	+0.3	96.12	105.28	3.72	108.07	96.09	105.08	112.43	100.00	131.95
The World Index (2455)	124.06	+0.2	110.04	114.64	2.40	123.81	110.08	114.51	132.38	113.37	135.69

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).
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Japanese market closed Sept.23
Constituent Change: Deletion :Fletcher Challenge (Canada)

WORLD STOCK MARKETS

CANADA

TORONTO
Closing prices September 23

MONTREAL
Closing prices September 23

OVER-THE-COUNTER

Nasdaq national market, 2pm prices September 23

Continued from page 42

INDICES

NEW YORK DOW JONES

CANADA

NEW YORK ACTIVE STOCKS

TOKYO - Most Active Stocks
Thursday 22 September, 1988

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

FRANCE (continued)

GERMANY

ITALY

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWITZERLAND

SOUTH AFRICA

JAPAN

AUSTRALIA

AUSTRALIA (continued)

HONG KONG

SINGAPORE

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. ● Dealings suspended xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

INDICES

	Sept 23	Sept 22	Sept 21	Sept 20	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1551.1	1541.7	1543.6	1546.7	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	707.9	696.2	694.8	699.9	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	203.0	202.7	201.8	201.5	203.0 (23/9)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/84)	5229.5	5257.5	5315.1	5210.7	5315.1 (21/9)	3608.35(4/1)
DENMARK						
Copenhagen SE (3/1/83)	(u)	230.28	227.30	224.37	230.28 (22/9)	180.68 (4/1)
FINLAND						
Unitas General (1975)	698.4	700.7	701.9	701.3	772.1 (8/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	370.7	371.6	366.6	364.7	371.6 (22/9)	251.3 (29/1)
Ind. Tendance (31/12/87)	143.1	143.7	141.4	139.0	143.7 (22/9)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	515.51	515.58	518.40	513.04	518.40 (21/9)	396.40 (29/1)
Commerzbank (1/12/53)	1567.40	1567.30	1576.40	1558.70	1576.40 (21/9)	1207.9 (29/1)
DAX (30/12/87)	1252.58	1253.68	1260.99	1245.98	1260.99 (21/9)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2454.38	2455.84	2432.00	2423.23	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	536.48	530.64	524.87	524.24	545.07 (18/3)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	(c)	27428.31	27712.66	27548.58	28423.38 (5/8)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	(c)	2108.55	2122.03	2123.64	2253.10 (2/8)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	269.5	270.7	270.9	268.7	284.8 (9/8)	205.7 (4/1)
ANP-CBS Industrial (1970)	227.7	228.2	227.2	225.9	239.3 (9/8)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	383.56	385.03	384.35	382.70	423.64 (21/7)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1033.71	1045.86	1046.53	1039.90	1177.87 (8/8)	833.60(4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1213.0♦	1202.0	1209.0	1236.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	1705.0♦	1662.0	1664.0	1664.0	1758.0 (20/7)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	273.52	275.21	276.64	276.91	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	3116.50	3124.50	3085.20	3061.60	3124.50 (22/9)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	560.90	561.80	559.10	554.0	561.80(22/9)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	438.4	440.4	439.8	465.2 (15/6)	401.0 (21/1)

**Saturday Sept. 17: Japan Nikkei (c) and TSE (c).
♦ Subject to official recalculation

Base values of all Indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

4pm prices September 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37¾	14	AAR s	.20	1.4	19	67	36⅛	26	26	– ⅛
16⅛	9⅜	ACM n				269	9⅝	9⅜	9⅜	
12⅛	8⅜	ACMIn n1.26e		12.		697	11⅛	10⅞	10⅞	– ⅛
12⅛	10⅝	ACMSc n1.20		12.		z894	10⅞	10⅝	10⅞	+ ⅛
10⅛	8⅞	ACMSp n.26e		2.7		395	9⅛	9	9⅛	+ ⅛
23⅞	19½	AGS			21	416	20⅛	20⅛	20⅛	+ ⅛
7⅛	2⅛	AMCA				4	2⅛	3⅞	3⅞	
7⅛	6⅛	AM Intl				655	6½	5⅞	6½	+ ⅜
29½	17	AM Int pf 2		9.2		184	21⅞	21⅛	21⅝	+ ⅛
57½	28⅛	AMR			16	3855	47	45⅛	46⅞	+1
27	25	ANR pf 2.67		10.		103	26½	26	26⅛	
10⅞	6⅞	ARX			11	56	7⅛	7	7	– ⅛
48½	35⅛	ASA	3	6.1		833	37⅛	36⅛	36⅞	+ ⅛
22⅛	9½	AVX	.05e	.3	11	492	16	17⅞	16	
61⅛	45	AbtLab	1.20	2.5	16	12169	48½	47⅝	48	–1½
27⅞	15⅛	AbitiBi g	1			14	16⅝	16⅝	16⅛	
16½	8½	AcmeC	.40	4.4		213	9	8⅞	9	
9½	6⅝	AcmeE	.32b	4.7	49	16	6⅞	6⅞	6⅞	
28	14⅛	AdaEx	3.05e	20.		140	16⅝	15½	16⅝	+ ⅛
18⅛	6⅞	AdamMl	.24	1.6	10	2	16½	16½	15½	
24⅛	7⅛	AMD				3163	11⅛	11⅛	11⅛	
30⅜	29⅛	AMD pf	3	8.3		12	36	28⅛	36	+ ⅛
8⅜	4⅞	Adobe				142	7⅛	7⅛	7⅛	– ⅛
19⅞	16⅛	Adob pf	1.84	10.		2	17⅛	17⅛	17⅛	
21⅛	17½	Adob pf	2.40	11.		10	21	21	21	
10⅛	5⅞	Advest	.10	1.4	16	46	6½	6⅛	6⅛	
61⅞	20½	AetnLf	2.76	5.4	6	2745	51½	50⅛	51⅛	– ⅛
20⅞	20½	AflPb s	.20	.7		647	27½	27	27½	+ ½
[illegible]										

Continued on Page 45

NYSE COMPOSITE PRICES

Continued from previous Page

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

Closing prices September 23

OVER-THE-COUNTER

Nasdaq national market, 4pm prices September 22

Continued on Page 43

The Business Column

Putting on the style in consumer electronics

Little love is lost these days between Philips, Europe's largest electronics company, and its Far Eastern competitors. But on one point, at least, they totally agree: that many of the future battles for world information technology markets will be decided in the arena of consumer electronics.

It is not just that advances in television and satellite broadcasting technology are set to revolutionise home entertainment markets; the mass-production economics of consumer products are also spreading rapidly to computers and telecommunications products as they become commodity items.

Beyond that, Japan's success in semiconductors has shown that the high volumes and rigorous competitive disciplines of consumer electronics manufacturing are vital to forcing the pace of innovation and improving efficiency in component production.

All this looks bad news for the US, which withdrew from consumer electronics in the 1970s, and for Europe, where a depleted industry is increasingly seeking trade protection against ferocious assault from the Far East.

Why has Europe, source of so many past breakthroughs in consumer electronics, failed to make a go of the business? The industry blames Europe's divided markets and unfair Asian price competition. But while these complaints have some validity, they are not the whole truth. European production also remained fragmented for too long into sub-scale units, while companies such as Philips and Grundig, its West German affiliate, have not been above launching price wars of their own.

A more radical explanation is that Europeans and Asians believed they were operating in different industries. Europe's talent for invention seems to have led to excessive reliance on innovation at the frontier as the prime source of competitive advantage.

That approach worked while innovators could effectively keep their technology to themselves — as European industry did for many years by denying Japan licences to make Pal colour televisions. But it has been overtaken by the speed of technological diffusion, as Philips discovered to its fury after investing massively to develop compact disc players. Months after they first went on sale, Asian suppliers were making rival machines.

Simply to condemn such incidents as commercial piracy is to miss an important point. For the uncomfortable fact remains that few western manufacturers could match the speed of the Far Eastern response — and the disparity cannot be explained just by cost differences.

What Japan and other Asian countries have seen is that consumer electronics is in many ways closer to a fashion business than a science-based industry. Much of their competitive strength lies in creating new markets by catering to — and stimulating — rapid changes in consumer taste.

Different variants of same product

One of the secrets is to make many different variants of the same product: Sony, for instance, markets its Walkman in dozens of different versions worldwide. Japanese companies regularly give their consumer electronics ranges cosmetic facelifts; but many European products have been restyled only when replaced by wholly new models.

Such flexibility takes more than agile marketing. It can only be made to work by intensive co-ordination between product development, production engineering and component suppliers — as well as by rigorous control over quality and costs.

Some companies, operating in markets just as competitive and as price-sensitive as electronics, have shown the formula can be successfully applied in Europe. Benetton, the Italian textiles manufacturer, is a model of how a company can not only follow but actually shape demand by continuously adapting its range.

If Europe's consumer electronics industry is to harvest tomorrow's technologies, it might learn more profitable lessons from the woollen jumper trade than from laboratory star-gazing.

Guy de Jonquières

THE MONDAY INTERVIEW

Fixer who plays a cool hand

Lionel Barber meets Lloyd Bentsen, US Democratic vice-presidential candidate

Shortly after he beat George Bush in a run-off election for the US Senate in Texas, Lloyd Millard Bentsen rode into Washington in a metallic brown Mercedes roadster with licence plates marked "Senate One".

It was a rare display of flamboyance for a man who, since that victory in 1970, has projected an aura of self-control which borders on the intimidating. Yet Senator Bentsen, the Democratic vice-presidential candidate and running-mate of Governor Michael Dukakis, still savours his win over Mr Bush and is burning to repeat the experience in this year's presidential election.

The difference is that this time around he would ride into Washington in an American car. A multimillionaire in his own right, Senator Bentsen is an economic nationalist, intent on restoring the US's competitiveness in the world economy.

In an interview aboard his campaign plane, Senator Bentsen made it clear that he intends to use the vice presidency as a lever to influence US trade and economic policy and boost US competitiveness.

"As Vice President, I would push for the opening of foreign markets and for the breaking down of protectionism," he says, "and I would not consider it beneath my office to push US products abroad. Just look how successful Mrs Thatcher has been."

Generally seen as a backroom fixer, a fearsome poker player who once won a house in a late-night congressional game, this 67-year-old politician likes to play for high stakes. As chairman of the Senate Finance committee, Senator Bentsen co-sponsored this year's Omnibus Trade Bill which strengthened America's ability to retaliate against what it deems unfair trade practices; and he remains deeply concerned about US trade imbalances with Asian countries, particularly Japan and Taiwan, and the emerging economic power of a more integrated European Community in 1992.

His reasoning — and this is a tough admission for a man whose family virtually controlled the Rio Grande Valley for 50 years — is that the US has grown weaker under President Ronald Reagan.

In Senator Bentsen's view, the transformation of the US into the world's largest debtor coupled with high real interest rates and a ballooning trade deficit have damaged its ability to compete with the rest of the world. This is not something which a weaker dollar can rectify on its own: "I hope there will not be a further depreciation of the dollar because there are limits to how far you can go and we are pretty close to that."

According to Senator Bentsen, the problem is more complex: it touches on the failings of the US education system, the difficulty of prising open protected markets in newly industrialised countries in Asia, and the extent to which the US — during a period when it must devote energies to domestic problems — may be overburdened by overseas commitments.

"Japan must carry more of the defence burden for Asia. We keep 55,000 troops at a cost of well over $3bn," he says, "we spend 6 per cent of our gross national product on the defence of our country and they spend a little over 1 per cent. As a new economic power, they need to measure up to their responsibility."

Asked if he favoured a new bilateral pact with Japan covering trade, defence, exchange rates and other issues, Senator Bentsen said he would not rule out such a comprehensive new initiative in a Dukakis-Bentsen administration. "It is not my preference," he says, "but we may have to."

Burden-sharing, as it is known, is not a new concept. What gives weight to Senator Bentsen's words is that they come from a man who has been remarkably prescient in the past at detecting political trends and shaping them to his own ends.

He was an advocate of business tax cuts during his failed presidential bid in 1976, well before the Reagan revolution; in 1985, with Republican Senator John Danforth of Missouri, he pushed for the managed depreciation of the dollar in co-operation with the other industrialised countries — the eventual policy of the US Treasury Secretary.

"Donald Regan (Mr Baker's abrasive predecessor) scoffed at the idea and said it would not work," Senator Bentsen says quietly, "but it did."

There is a finality about the way he delivers these words, the confidence of a man who grew up in one of the poorest regions in the country — the Rio Grande valley — and became one of the most powerful members of the US Senate, a politician who could charge businessmen $10,000 (£5,988) to have breakfast with him. (This fund-raising scheme — which earned him the nickname "Eggs McBentsen" — was dropped after adverse publicity.)

His father — Lloyd Millard Bentsen Snr — made his fortune through selling land to Maxicana and by most accounts his buccaneering business methods might have made even Lyndon Johnson blush. Bentsen Jr — who made his money in insurance — has none of the familiar Texan swagger of contemporaries such as John Connally (the former state governor who went bankrupt to the tune of several hundred million dollars) or

PERSONAL FILE

1921 Born in Mission, Texas
1942 Law Degree, University of Texas
1942-5 Decorated bomber pilot in Europe
1943 Married Beryl Ann ("B.A.") Longino
1945-48 Lawyer in McAllen Texas and County Judge
1948-55 US Congressman for Texas's 15th District
1955-71 President, Lincoln Consolidated (financial holding company)
1971- US Senator from Texas

Robert Strauss, the wheeler-dealer Washington lawyer of whom it was said that if you preceded him through a swing door, he would appear first in the room.

Mr Strauss was instrumental in pushing Senator Bentsen as a running mate for Governor Dukakis. During a recent campaign swing through the states of the Old Confederacy, accompanied as ever by his elegant wife "B.A.", it became clear why Bentsen is on the ticket.

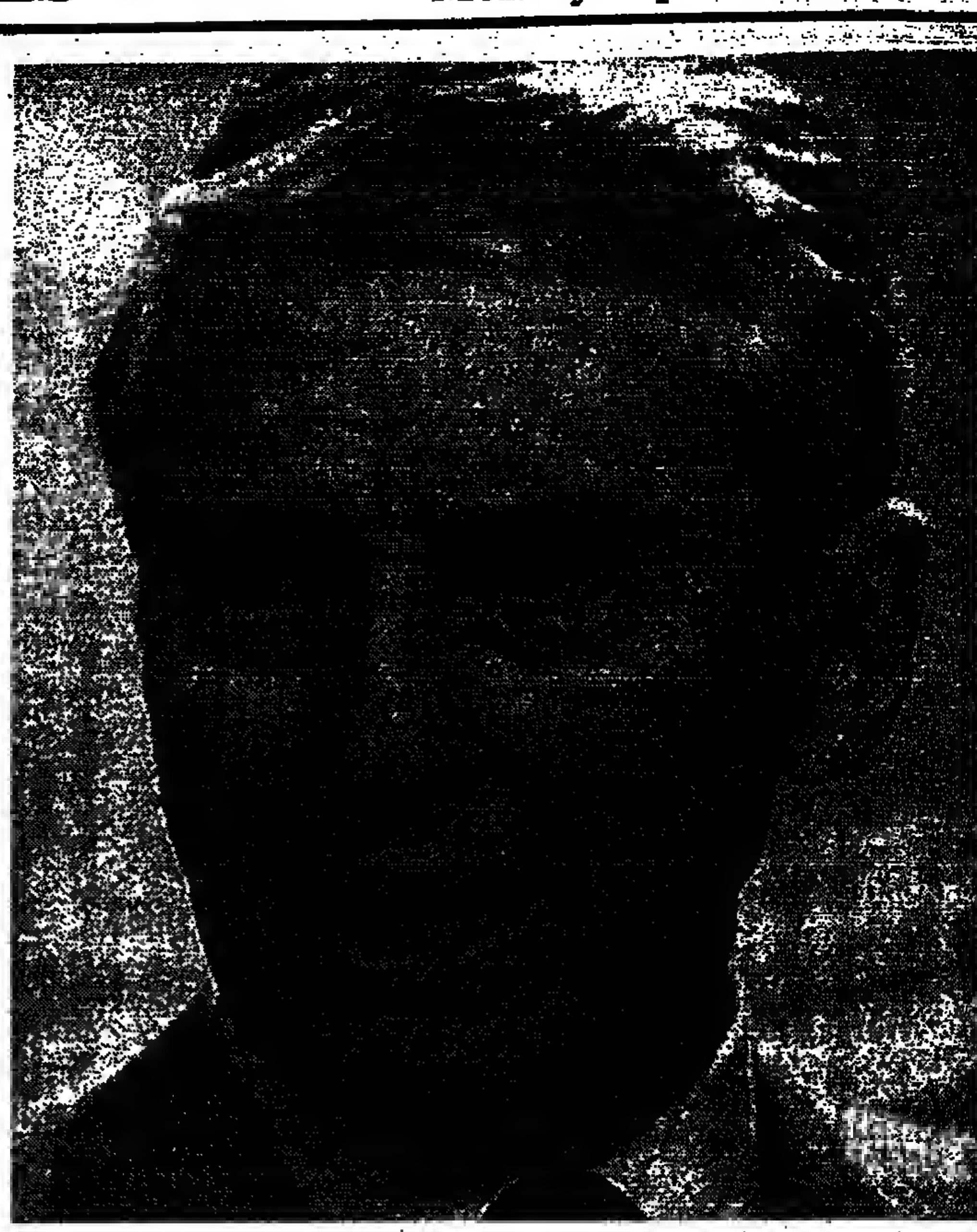
Southern Democrats have been progressively alienated by the liberal presidential candidates who have emerged through the Democratic primary and caucus elections in the last 20 years. George McGovern and Walter Mondale, both US Senators from the North, all lost the South — and the election. Indeed, the only Democratic winner since 1964 is Governor Jimmy Carter of Georgia, who won in 1976.

This year, the election process has thrown up another northerner, Governor Dukakis, who comes from Massachusetts, a state with the reputation of being the most liberal in the Union. Senator Bentsen — who favoured the Reagan military build-up and still backs most of President Reagan's foreign and defence policies (including the Nicaraguan Contra rebels, the 600-ship Navy, the MX missile, and the B-1 bomber) is the essential conservative counterweight to Mr Dukakis.

Senator Bentsen's job is to vouch for the Massachusetts governor as a fiscally responsible politician who is sound on national defence. He does not always succeed: he was booed at a defence manufacturing plant in Texas the other week when he mentioned Mr Dukakis by name.

Senator Bentsen is a dull speaker, but he has not needed to practice on the stump: a well-greased political machine back in his home state rendered the skill largely redundant. However, he does arouse palpable respect among elected Democratic officials in the South. One veteran state agriculture commissioner in North Carolina said, his voice rising with passion: "Lloyd Bentsen has a 100 per cent voting record on the peanut programme. Lloyd Bentsen is a Christian brother and I am committed to him heart, soul and body."

Of such loyalty are political alliances forged, and Senator Bentsen has a great many friends and favours to call on. As Vice President, he would be a difficult man to keep down — even if the record of previous incumbents, including George Bush — is not impressive.



'I would not consider it beneath my office to push US products abroad'

Senator Bentsen says he is aware of the problems of the office which include isolation and the lack of an institutional power base. But he has let it be known that Governor Dukakis promised him regular access, at least one to three times a week, in a future administration. This was apparently one condition he set before agreeing to be the vice-presidential candidate.

He has his agenda in place in the event of victory in November: he wants to offer tax incentives to boost Americans' savings rate (to offset the dependence on foreign credit to finance the $150bn budget deficit), and he wants to cut domestic interest rates. "Today, we are paying 4 per cent more for our capital than Japan, and substantially more than West Germany. If we are to compete effectively with Japan, we have to get interest rates down."

As the world has been telling the US for the past five years, this means tackling the federal budget deficit. Senator Bentsen bristles when asked why the Democratic Party has not spelt out a credible deficit reduction plan. "It will be tough," he says, "but we will set priorities in the first few months of the Administration."

Whatever the outcome in November, Senator Bentsen will continue to be a force in Washington. Under Texan electoral rules, he is allowed to run for Vice President and re-election to the Senate at the same time: his popularity is such that he is certain to win the Senate race. And let there be no doubt about his longevity: Bentsen Snr, still doing deals, is approaching his 95th birthday.

A right to be let alone

Of all the Labour Party's varied proposals to reform the press, unveiled by Mr Bryan Gould MP to the Campaign for Press and Broadcasting Freedom, greatest interest will focus on the plan to confer on the citizen a freedom from unsolicited and unwanted publicity for his or her private affairs. It is the relationship of the press, not to government, but to its newspaper readership which attracts maximum support for the intervention of the law.

A civil wrong (in legal language a tort) of invasion of privacy has been the subject of endless debate the whole of this century.

Writing in 1890 two distinguished American lawyers (one a leading academic and the other a future Supreme Court Justice) wrote a seminal article in the Harvard Law Review defining a right "to be let alone." They declared the right as being "to protect those persons with whose affairs the community has no legitimate concern, from being dragged into an undesirable and undesired publicity and to protect all persons, whatsoever their position or situation from having matters which they may properly prefer to keep private made public against their will."

The authors suggested that there existed already in the common law of England an embryonic right of privacy. Their advocacy exerted a formative influence upon the development of such a law in the US, while English lawyers were slow to emulate the Americans and have achieved nothing more than a limited protection through the recent extension of the law of confidentiality.

Today the individual's right of privacy exists in a majority of the states in the US. Those laws confer a general right to be let alone, untroubled by unwelcome publicity. The right is, however, powerfully subordinated to the guaranteed right in the First Amendment to the US Constitution in the case of matters of legitimate public interest. That means that, apart from official secrets, in any discussion of matters of public interest there remains virtually unfettered freedom to publish and comment upon such matters.

An untrue story on a matter of public interest is permissible, subject to the limitation that the author and publisher neither knew of its falsity, nor acted with a reckless disregard of its truth. If the matter given publicity is not a matter of legitimate public interest it constitutes an unwarranted invasion of privacy, so long as the victim has not given his consent to such publicity and if the publicity is such that it will be objected to by the reasonable person. It matters not whether the matters published be true or false.

The key to the breadth of such a civil wrong is the legitimacy of the public interest in the matter publicised. American courts have tended to construe the concept of legitimate public interest with considerable latitude in favour of the publisher. In the case of an alleged defamation of a public figure the defamed can sue successfully only if, in publishing a false statement, the defamer was shown to have published with knowledge of its falsity, or with reckless disregard for its truth.

JUSTINIAN

The decision has been adapted to invasion of privacy cases. Thus public figures in the US are generally more susceptible to character assassination than their counterparts in England. The private citizens whose actions are of no legitimate public interest are incomparably better protected than their English counterparts.

Non-Anglo Saxon legal systems — particularly in European Community countries — recognise a right of privacy. French law is highly developed in the protection it confers against undesired publicity. But the concept of public interest to limit the protection has received a much narrower interpretation by French courts than in the US.

French law is also peculiarly severe on the intruder of privacy. Not only may the court award damages, but the publisher runs the risk of judicial seizure of his publication.

English law presents a different story. The Younger Committee on Privacy in 1972 concluded, over two powerful notes of dissent, that there was no compelling need for a general right of privacy. The committee was overly persuaded by press and broadcasting authorities which argued that enactment of such a right would dangerously intrude upon freedom of speech. The argument ran along familiar lines: the concept of privacy is inherently vague and impossible to define in sufficiently precise terms; phrases like, "legitimate public interest" would pose for the courts an impossible task. The committee was content to leave such delicate questions for self-regulating bodies like the Press Council. The Younger Committee did however contemplate legislation, but only when there was "compelling evidence of a substantial wrong which must be righted even at some risk to other important values."

The apparent failure of the Press Council to curb press intrusion into the private lives of citizens may seem now to provide that "compelling evidence." If so, English courts have been culpably backward in developing a cause of action that almost a century ago they were transatlantically invited to undertake. A limited right of privacy, along the lines developed in the US, far from having a pernicious effect might actually inculcate a greater sense of editorial responsibility, even if, as for libel actions, legal aid was unavailable to the individual litigant.

Education by legislation, as much as an invitation to litigate, can have a beneficial effect on the conduct of publishers. As with the laws of libel, complaints of press intrusion into private lives could be handled by the legal process and Press Council in harness.

SECTION III

FINANCIAL TIMES
SURVEY

This year's boom has reminded the clearers that their best market is the home turf they will have to defend in a unified Europe after 1992, writes Banking Editor David Lascelles, as UK banks, confident of meeting the new capital rules, prepare for battle.

A prosperous harvest

UK Banking

BRITISH BANKING is gathering in a rich harvest this autumn – perhaps its richest for a long while.

With the economic climate producing excellent conditions for growth for the better part of the year, the lending business has yielded a bumper crop, and many banks will be reporting their biggest ever profits when the 1988 accounts are closed. This will replenish the granaries depleted by last year's large losses caused by Third World loan problems.

But while the clearing banks may be getting their share of newly prosperous Thatcherite Britain up and down the country's high streets, conditions are not universally great in the banking business. In many parts of it, particularly in the City of London, the crops remain flattened by the storms of last year's stock market crash; and, for the people who till those fields, times are hard and uncertain – a reminder of quite how diverse the UK banking industry has become in this era of deregulation and sweeping change.

There is considerable irony in the boom times which have prevailed in UK banking this year. They have reminded the banks that their best markets lie on their very doorsteps, and not in the more exotic or distant parts of the business which some of them had ventured into, such as international or investment banking. Lending to a Midlands home-owner who wants to extend his house – humdrum though that may be – is a lot more lucrative than competing with a Japanese bank for multinational loan business on razor-thin margins, or fighting 25 of the world's strongest investment banks for a share of the gilt-edged dealing market.

This rediscovery of the home market has greatly favoured the clearers, who have the branch networks and expertise to develop it, and they have gone for it hell for leather. It is virtually free of foreign competition; the margins are high; it is a relatively safe business; and other entrants, like the building societies, are only now beginning to use their new-found banking powers to attack it – as yet with caution.

Last year, NatWest, the UK's largest clearer, became the first to make £1bn of profits in the UK market alone. But with hindsight, these good times may well turn out to have peaked this summer.

For one thing, experience teaches bankers that every boom invariably contains the seeds of its own destruction. The surge in property lending and Third World loans in the 1970s were classic cases; and while it is hard right now to see a downturn in the UK market inflicting equally heavy losses on the banks, a sharp drop in house prices would be painful.

A weakening of the domestic market would also remove the only good string that the clearers currently have in their bow: no other part of their business begins to approach it in size and profitability.

The steep rise in interest rates engineered by Mr Nigel Lawson, the Chancellor, since the spring is certain to dampen credit demand and reduce the volume of lending, though borrowers have so far proved unexpectedly resilient. While the banks may make up for such a fall by widening their margins as rates go up, the days when high interest rates automatically boosted bank profits are fading with the decline in non-interest bearing balances, because of building society competition.

As time goes by, there can also only be an intensification of competition. Despite their slow start, the building societies are making headway, particularly in the deposit market. And if the high level of competition in mortgages is anything to go by – particularly the advent of hitherto little-seen price competition – tougher conditions will also spread into the personal and small-company loan markets, where banks have so far been able to keep up their charges.

The perception of the UK as an expensive and highly profitable place to do banking business is beginning to spread. Earlier this month, a survey by a small business lobby showed that UK companies get a raw deal compared with their US counterparts: charges are higher, collateral requirements more burdensome, and price competition weaker.

These disparities will become increasingly significant as the European Community approaches the end of 1992 and the planned completion of the unified market. Research conducted for the EC Commission in Brussels shows that the cost of banking in the UK (measured in terms of the charges added by banks to their own cost of money) is among the highest in the Community for personal and corporate loans. Only in mortgages is it low.

This has reinforced the view that the UK will become one of the hottest battlegrounds as European banks go in search of new markets. And though UK banks have ambitions of their own across the Channel, they will have to spend as much time protecting their own turf as trying to grab someone else's.

This process may be slow to come about: few people expect to see a dramatic reshaping of the European banking industry as a result of 1992, because banking is a business where new entrants have to break into long-established relationships and overcome the innate conservatism of banking customers. But there is no mistaking the air of anticipation among top UK banking executives about 1992, and all banks have launched major studies to weigh their options.

Some banks, like Barclays, have been quite explicit about their plans: they intend to target specific continental markets, such as trade finance, and build retail businesses where they already have a foothold through ownership of a local bank. Barclays also sees Barclaycard, its credit card system, as a good delivery vehicle for a wide range of financial products.

In the UK, it is thought unlikely that EC banks will try to launch retail banking operations from scratch. More likely, they will buy a newly floated building society. The outcome of the bidding for Girobank, the government-owned Post Office bank which is being privatised this winter, is also awaited with keen interest.

The other big strategic question facing many members of the UK banking industry is the future of investment banking. While only two of the clearers, NatWest and Barclays, have committed themselves deeply to this market since the Big Bang in 1986, many merchant banks have linked their destinies to it.

The collapse of the equity market last year was a major blow from which none of them has fully recovered. NatWest suffered heavy losses and embarrassing scandals, and Barclays is making only small profits. Yet both banks maintain that an investment banking capability is essential to their aspirations to be among the world's top banks.

Merchants banks, like Morgan Grenfell, Kleinwort Benson and S.G.Warburg, have proclaimed similar goals to become US-style integrated investment banks, capable of competing on Wall Street and in Tokyo as well as in London. But the cost of these ambitions at a time of sluggish markets and uncertain outlook is heavy, and their profits are under pressure.

Whether all of them will be able to survive without cutbacks or job losses remains to be seen. But two years after the Big Bang, fortune seems to have favoured merchant banks who set their sights lower and specialised in things they do well, like corporate finance.

Underlying all UK banks' strategic thinking at the moment is the question of capital, following the agreement by international bank supervisors in Basle this summer to impose worldwide capital adequacy standards. Recent months have seen a string of large rights issues, including a record £930m from Barclays, and £303m from Standard Chartered which is struggling to recover from a period of heavy losses and mismanagement.

All UK banks are confident that they can meet the new capital rules, which come fully into force in 1992. The more intriguing question is what effect the rules will have on international competition, particularly from the Japanese whose low capital needs have enabled them to grab a large share of the London-based international banking market. Although the Japanese will now have to boost their capital, most UK bankers doubt whether this will make much difference, because of the relatively low cost of equity in Tokyo.

There are deep pressures building up in the UK banking industry, which seem certain to produce new structures in the 1990s; and the indications are that these will benefit the buyers rather than the suppliers of banking services. Products should become cheaper through competition, and easier to obtain as a result of technological improvements. Bankers will have to learn how to thrive and survive.

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Illustration: David Worth

The lending boom: banks fear a slowdown

Diversity may offer a measure of security

BANK LENDING figures have become high-profile statistics. When the Bank of England publishes its monthly estimates of money supply measures, even the tabloid newspapers are filled with headlines about Britain's credit binge or living on the never-never.

Their prominence does not reflect just the scale of borrowing. Bank lending figures are also taken as an indicator of economic activity and cost pressures – and they are a key target for the Government's anti-inflation policy.

In the past year, bank lending has expanded considerably, rising hand-in-hand with the exceptionally strong growth of the UK economy. July's figures showed that bank lending rose by a seasonally-adjusted £6.3bn – only slightly less than the record £6.4bn in June.

The Treasury, however, believes the economy is growing at an unsustainable rate and that it has to be slowed. Too fast growth, it is feared, increases inflation and worsens the trade deficit. The weapon it has chosen is interest rates. Higher rates, however, mean that borrowing becomes more expensive.

With interest rates widely expected to increase still further – perhaps to 14 per cent within the next six months – the fear for the banks is that if, or rather when, the slowdown in economic activity comes, it will be they who suffer first.

Too much pessimism too early, however, could prove premature. If economic growth is hitting a turning point, the evidence so far is scant. Output, investment, consumer spending all continue to rise rapidly, while unemployment is falling.

Buoyant activity could continue to underpin the lending boom for some months. And when growth does slow, the Government will not seek deliberately to engineer a recession.

The consensus of forecasts by City analysts seems to suggest that it will take considerable mismanagement or unforeseen economic events to push Britain's growth rate much below 2¼ per cent next year. Although less than the rate of about 4 per cent in 1987, and probably in 1988, it is not necessarily a disrespectful rate of growth by historical standards.

Moreover the extent to which interest rates hit lending is far from clear. In an optimistic scenario, activity may be slowed and inflationary pressures eased with little pain. This could mean that interest rates may not have to rise much further or for long enough to have lasting consequences for bank lending.

At the same time, the link between economic activity and borrowing behaviour is not strictly mechanical. While it is probably demand for borrowing that has led the growth in recent years, it is supply factors which have underpinned the 1980s renaissance.

Since the beginning of the decade, UK banks have appeared to turn away from lending to less developed countries and towards the seemingly safer domestic market – particularly the personal sector. The relaxing of credit controls and the increasing sophistication of financial markets have also undoubtably helped to create a greater market for bank lending.

But looking forward into 1989 and the next decade, it is almost certainly demand that will continue to be the key. Supply-side changes appear to have been largely a once-and-for-all gain.

On this demand side, two themes stand out as being particularly pertinent to the outlook for both the economy and bank lending. The first is the increase in lending to consumers – perhaps the sector which the Government is most anxious to see moderate its spending. The second is the strength of lending to industry.

In the consumer sector, the prospects for lending other than for house purchases appear good. Consumer spending in recent years has been underpinned mainly by strong earnings growth, which shows no clear sign of a significant easing.

Most independent economists agree that consumer spending will slow next year – but from exceptional levels in 1988 and 1987. The effect on demand for consumer credit, which acts more to lubricate rather than to fuel growth, could be modest – particularly if, as is widely assumed, consumers prove to be largely indifferent about rising interest rates.

Borrowing by the personal sector for house purchases, however, could be a different story. Lending for house purchase has reached exceptional levels – helped earlier this year by the rush for mortgages ahead of the August 1 deadline before tax changes announced in the Budget became operative. Borrowing for house purchase accounts for the biggest share of bank lending outstanding to individuals.

This growth may not be sustained if house prices do not maintain their recent fast growth, or even stagnate. It will probably be some time before a change in price trends becomes apparent, but even a little uncertainty could lead would-be buyers or sellers to delay decisions.

In lending to industry, the outlook is still less certain. Borrowing has been boosted by the general increase in activity in the sector, but has been helped by even stronger investment spending.

Of course, only part of industry's spending is financed through investment spending; a large chunk is taken from retained profits. But this emphasises the vulnerability of lending to industry: it may take only a small downturn in investment to produce a large swing in borrowing for capital expenditure.

After growing at a rate in excess of 10 per cent a year, industrial investment is widely expected to show just such a downturn in 1989. In addition, borrowing by industry is almost certainly interest-rate sensitive – at least in comparison with the personal sector.

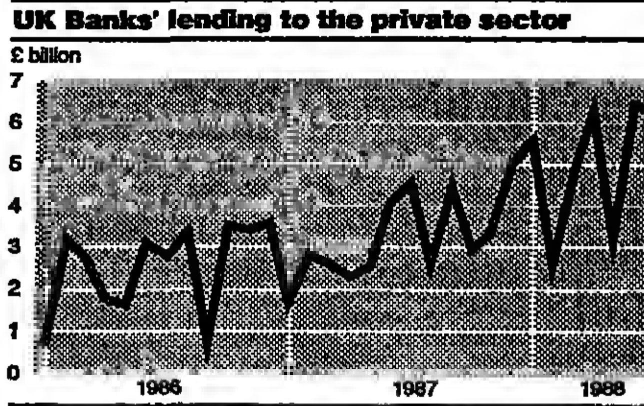
The banking sector can take some encouragement from the spread of lending in Britain. The latest Bank of England analysis of bank lending within the UK shows that growth this year has been spread across most sectors.

Of the total increase in sterling lending during the three months to May, the personal sector accounted for about 30 per cent, the financial sector about 20 per cent, with most of the remainder accounted for by industrial and commercial companies.

This even growth suggests that recent expansion in bank lending has been on all fronts. Such diversity could provide a measure of security when Britain's economic growth rate begins to slow.

Ralph Atkins

UK Banks' lending to the private sector



Gillian Callan

Consumer spending is expected to cool off next year

Investment banking was shaken by the crash

Specialise if you're not a global player

AS THE second anniversary of the 1986 Big Bang approaches, the euphoria which greeted that event seems very much a thing of the past, particularly for investment banks, who have found themselves playing the biggest role.

While the first year brought record profits, the second has seen the market crash, losses mount and jobs go. It could hardly be a more vivid reminder that the securities business is notorious for moving from feast to famine.

All this has sharpened the emerging distinctions in the UK merchant banking community between those who chose to become deeply involved in the securities markets, and those who opted to stay out. The clearing banks, too, have split into those with strong investment banking ambitions, and those without.

Merchant banking houses like S.G.Warburg and Kleinwort Benson, two of the largest, are trying to become global investment banks by establishing themselves in the world's major markets in Europe, the Far East and the US. But while they stand the greatest chance of matching up against world class competitors, they have also faced the greatest shocks. Their profits are under pressure, and no one would be surprised to see them having to shed people or pull back from some areas of their business in the months ahead.

Morgan Grenfell, another leading merchant bank, recently reported halved profits for the half-year, because of the effect of depressed markets. But Mr John Craven, the chief executive, argues strongly that merchant banks must become US-style "integrated investment banks" capable of handling all major types of market transactions if they are to "win the big prizes". Because of this, he aims to press on with Morgan's strategy of building up its securities side despite its losses.

Other houses have taken a more modest approach. Schroders has only entered the securities business in a small way. Instead, it concentrated on corporate advisory work, with notable success. Rothschilds, Lazards, and Charterhouse (part of the Royal Bank of Scotland group) have taken a broadly similar route, preferring to engage in lines of business which do not require hefty capital backing.

None of these houses would admit to having lost clients specifically because they lack the powerful securities market making and distribution capabilities of the big houses. Some, like Mr Win Bischoff, of Schroders, maintain that it has actually increased their attraction to clients because they have no conflicts of interest between their advisory and securities sides.

Among the other larger houses, Hambros' decision to stay out of the securities business and concentrate on the UK estate agency and personal financial services market appears to have been right; it has spared itself a painful exposure to the stock market, while benefiting from the homes boom.

The clearing banks have also displayed mixed fortunes. The two which plunged deepest into investment banking, Barclays and NatWest, have achieved quite different results. Barclays' investment bank, BZW, which was created out of a merger of large jobbing and broking firms, seems well on its way to successfully fulfilling the definition of an integrated investment bank, though its profitability is still low.

NatWest, by contrast, has seen its investment banking arm buffeted by huge losses and scandals, and the resignation of its two top executives. But while many people in the City saw in this the confirmation that clearing banks are not suited to investment banking, Mr Terry Green, who moved over from the clearing bank to sort the investment bank out, says NatWest will press on with its plans, albeit after "revising the pace and scale".

Both the other leading clearers, Midland and Lloyds, have largely retreated from the securities business, though both have merchant banking subsidiaries to conduct their corporate advisory work, and Midland remains a dealer in the gilt-edged market through its investment banking arm, Midland Montagu, which incorporates Samuel Montagu.

The Trustee Savings Bank is now also involved in merchant banking through its acquisition of Hill Samuel. But it was careful to stay out of the riskier side of the business in market-making, and Hill Samuel is now leading the TSB's attack on the corporate finance and commercial banking markets.

Although there was much talk at the time of Big Bang about the "right" and "wrong" approaches to investment banking as bankers selected their strategies, experience suggests that the market is as diverse as ever.

The record so far suggests that the restructuring of the City may produce only two or three world-class investment banks to face the giants of New York and Tokyo. But while that might have been a disappointing prospect a couple of years ago, the City has rapidly come to the view that specialisation is both an honourable and sensible route for the majority of the merchant banks. It is also one which draws best on their well-honed qualities of resilience and flexibility.

There has certainly been no proof that only those investment banks with large amounts of capital will succeed. Many relatively small banks are thriving in their niches – Brown Shipley and Singer & Friedlander, for example – while some with billions at their command, like NatWest, have run into trouble. By the same token, privately owned banks like Robert Fleming, Rothschilds and Barings have not even found it necessary to tap the public equity markets to survive.

Nor has the much-predicted consolidation and restructuring of the business come about. Apart from the TSB's takeover of Hill Samuel, all merchant banks have preserved their independence; and two of them, Singer and Guinness Mahon, have even managed to break away from their parents to set up on their own.

Among the big battalions, though, the success of houses of like Warburg and BZW has confirmed the view that, if there was a "correct" strategy, at Big Bang, it was for a bank to buy the biggest and best managed securities firms available, and build on their established expertise and market share.

Mr David Band, the chief executive of BZW, says: "This is not a business where you can be half-pregnant".

David Lascelles

UK MERCHANT BANKS
Return on average shareholders funds (%)

	1985	1986	1987
Hambros	14.4	17.0	16.4
Kleinwort Benson	15.0	15.6	10.1
Morgan Grenfell	20.3	16.0	10.2
Schroders	8.7	10.7	12.1
S.G.Warburg	–	19.0	14.4

Source: Morgan Grenfell Securities

PROFILE: SCHRODERS

Back among the leaders

IN THE volatile world of merchant banking, respect is hard won and easily lost.

One merchant bank which has had a hairy ride on the reputation roller-coaster is Schroders. From being a top name at the end of the 1960's, it plunged into a deep dip early this decade. But now it has come roaring back, scaling even greater heights.

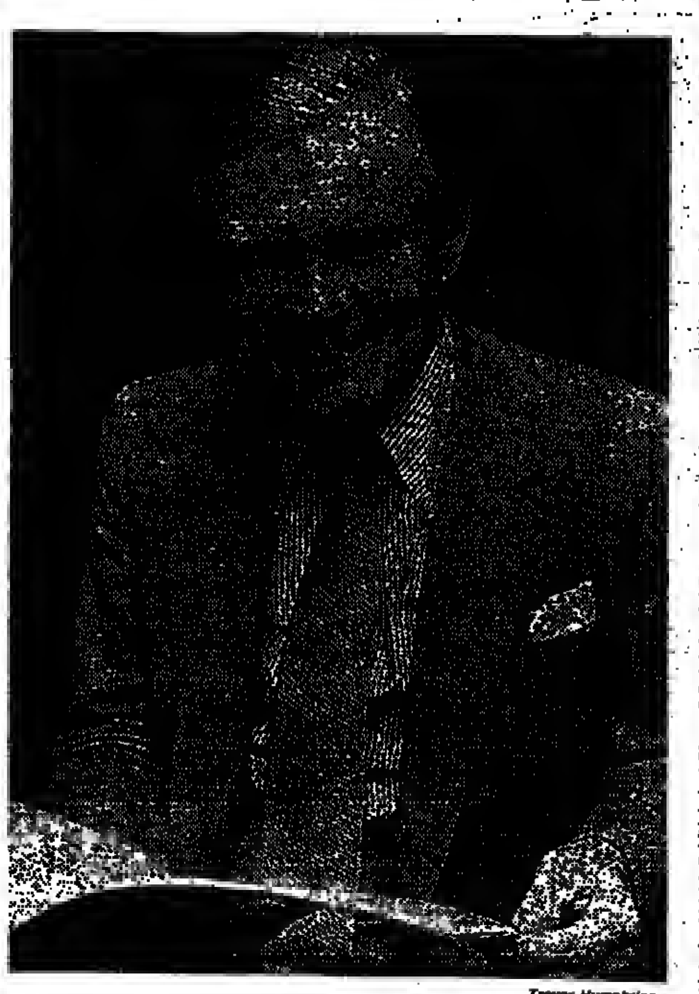
According to the league tables, Schroders is top merchant bank in terms of corporate finance: in the first half of this year, it handled more takeover business than any other UK merchant bank.

This is naturally a source of much satisfaction at the company's Cheapside headquarters, where Mr George Mallinckrodt, the chairman, and Mr Win Bischoff, the group chief executive, have managed the comeback. But the upward ride has not been smooth, and some might say that Schroders has taken a short cut by concentrating heavily on corporate finance, while its competitors were building up more widely based businesses, particularly on the securities side.

Mr Bischoff, himself a corporate finance man by training, makes no apologies for playing up his group's achievements in corporate finance. "It's the best visiting card," he says, because of its high visibility. Moreover it is a business where success quickly breeds more success as corporate clients seek out the merchant banks with the best reputations.

In profit terms, too, it is rewarding. Corporate finance carries little in the way of back-office costs and – in Schroders' case, at least – staff remuneration is geared to their department's results. Despite the sluggishness of the markets this year, which has taken its toll on the group's overall profits, Schroders' corporate finance earnings are increasing. Its major deals included defending Rowntree against Nestlé, advising on the BP offer for Britoil, and the British Gas offer for Acre Oil. It is also Pernod-Ricard's adviser in the Irish Distillers' Group battle.

Mr Bischoff attributes Schroders' comeback in mergers and acquisitions work to "slogging away at it, putting the client first, and coming up with good ideas." But if there was an obvious recipe for success, everyone would be using it, he says.



Trevor Humphries

Mr Win Bischoff: 'corporate finance is the best visiting card'

Schroders' efforts to develop the securities side have been less ambitious – and less successful. At the time of the Big Bang in 1986, it decided not to get into the debt market at all, and only make a limited venture into equities. It backed a small group of equity investment bankers, but the arrangement foundered on disagreements last year, and the people left.

Since then, Schroders has hired Mr Richard Watkins from Hoare Govett to get the equity side going again. But – at least insofar as the UK is concerned – it will be a limited operation, concentrating on research, and a small amount of brokerage and market making. It will not attempt to match the integrated securities operations developed since Big Bang by leading houses such as S.G.Warburg and Barclays de Zoete Wedd.

Mr Bischoff argues that while US-style integrated investment banking is undoubtedly making its way to the UK, it is not yet "the *sine qua non* of merchant banking". He says that the City has produced very few successful integrated houses. He also maintains that corporate clients prefer to have separate houses dealing with their corporate finance and securities requirements. "At least, ours do. This is something they do think about."

Schroders has taken a different tack, though, outside the UK. In the US it bought half of an integrated investment bank, Wertheim (now called Wertheim Schroder), with which it co-operates on corporate finance and securities deals. The relationship is going well, though the question of where it will lead is a delicate one. Mr Bischoff says Schroder is happy with 50 per cent, "but we'd be obvious buyers if any of their partners wanted to sell out".

In the Far East, Schroders has made a big effort. It has 600 people stationed in Japan, Hong Kong, Singapore and Australia (compared with only 150 in continental Europe), mostly engaged in equity and corporate finance work. Mr Bischoff says the Far East "earns high returns on capital", though he excludes from his calculations the heavy $7m cost of buying a seat on the Tokyo stock exchange.

Europe will most likely be Schroder's next big overseas thrust. Aside from its relatively small presence there, Mr Bischoff says it will be "very interesting for all UK merchant banks", because of the move towards an integrated market in 1992. Schroder and Wertheim intend to work together to build up their European investment banking business.

Mr Bischoff is confident about the future of independent merchant banks (and his own is well insulated from takeover, thanks to a 50 per cent Schroder family shareholding). But he thinks the coming years will see increased specialisation as people realise that the fashion for global integrated banking is unworkable. "People will realise they can't compete in all areas" – a comment which reflects his own strategy.

David Lascelles

UK BANKING 3

Four men and their banks: David Lascelles assesses the achievements and styles of the helmsmen at the Big Four


Trevor Humphries

Mr John Quinton is modernising the global branch network


Trevor Humphries

Mr Brian Pitman: cramped by loan exposure to Latin America


Alan Harper

Sir Kit McMahon has taken some courageous steps


Alan Harper

Mr Tom Frost: his fortunes have been mixed

World status is the target

BARCLAYS BANK: When Mr John Quinton took over as executive chairman last year, he set himself the goal of restoring Barclays to the top position among the clearing banks which it had lost to NatWest.

In some respects he has succeeded. With his outgoing manner and stress on performance, he has pushed up Barclays' lending and profits; and he astonished the City last spring by launching a record-breaking £930m rights issue to boost the balance sheet.

His efforts were rewarded earlier this month when Standard & Poors promoted Barclays back to the exclusive ranks of triple-A rated banks from which it had fallen in 1984.

Mr Quinton is determined to make Barclays a bank of world stature, believing that it can thrive if it aims to serve the world's top customers.

He is now modernising Barclays' global branch network, concentrating his efforts on the Far East, North America, and Europe where he sees Barclays playing a major role in the creation of a unified EC market in 1992.

Barclays' investment bank, BZW, has been one of the major success stories of the Big Bang in 1986, which saw many mergers between banks and stockbrokers.

Although still not highly profitable, its growing influence in the City suggests that Barclays has a knack with managing innovation, first displayed when it introduced credit cards to the UK with Barclaycard more than 20 years ago.

Above-average performer

LLOYDS BANK: In asset terms, Lloyds is the smallest of the Big Four. But Mr Brian Pitman, the chief executive, has always put profitability before size, and he has earned his bank a reputation for above-average performance.

He has taken bold, often controversial, steps to reshape the bank and position it in markets which he thinks will produce better results. Lloyds was one of the first banks to retreat from the securities markets after the Big Bang – a move which looks wise with hindsight.

It was also one of the first to move into the estate agency business where many have since followed.

However, Mr Pitman's style is cramped by Lloyds' large loan exposure to Latin America, now heavily provided for. But Mr Pitman is reluctant to replenish his reserves by going to his shareholders; he says banks must earn their way.

Lloyds has neither the desire nor the capacity to be "a global player", so it concentrates its efforts on specialised markets.

Geographically, it tries to link business centres where it is well represented, and it has singled out particular niches, like registrars services and insurance.

The question overhanging Lloyds is whether it will renew its unsuccessful 1986 takeover bid for Standard Chartered. Given Standard's problems since then, the failure was a mercy. But a healthy Standard would fill in many of the gaps in Lloyds market coverage.

Recovering but much still to do

MIDLAND BANK: Sir Kit McMahon has had the toughest clearing bank job over the last two years, setting to right a bank which suffered a near-mortal blow with its ill-starred acquisition of Crocker National Bank of California.

However, the former deputy governor of the Bank of England has taken some courageous steps to reshape the bank by selling off marginal businesses, raising new capital and restoring the staff's battered morale. In the process, he has had to scale down Midland's international ambitions, but he has found a new partner in the form of the Hongkong and Shanghai Bank, which bought a 14.9 per cent stake last year. Sir Kit has said he "hopes" the alliance will lead to a merger.

He also shut down or sold much of the bank's securities business, developed at the time of Big Bang, because of its poor profitability, and is now concentrating on pulling together Midland's services for company customers in a new corporate division under a new management team.

But though Midland is now on the mend, his task is far from complete. The bank still has the highest costs of the Big Four, and the least well shaped UK branch network. Its back office also need upgrading. But Midland has some unusual assets, like Thomas Cook, the travel agents which Sir Kit believes can be used to market a wide range of financial and related services, and Samuel Montagu, the merchant bank whose potential has never been fully exploited by Midland.

Top earner in spite of errors

NATIONAL WESTMINSTER BANK: Mr Tom Frost became chief executive of the UK's largest clearing bank last year with the task of ensuring that NatWest stayed on top. His fortunes since then have been mixed.

When all the world's leading banks were making large provisions against their Third World loans early last year, NatWest was able to take them in its stride. Its high earning power and low exposure meant it was the only clearer which got through without making a loss. And even though the other banks have since recovered, NatWest is still the biggest profit-earner, with £1.5bn pre-tax on the cards this year.

But NatWest has also suffered. Its investment banking arm, County NatWest, committed a series of blunders last year which forced it into a loss of £118m. Just as painful as the red ink was the blow to the pride of NatWest – a bank where achievement is taken very seriously.

Mr Frost is determined to see NatWest counted among the world's top banks – and because of this he intends to develop investment banking alongside the bank's advances into other markets in the US, Asia and continental Europe.

A man with a strong marketing background, who spent several years running NatWest's US operations, Mr Frost is trying to strengthen the bank's competitive, selling spirit.

He talks of "a war" in the banking markets, and he predicts that many of the financial institutions will be hard put to survive it.

The clearers: seldom have they enjoyed such prosperity

Europe sets a challenge

THE MID-1980's may come to be viewed as a golden era of UK banking.

Seldom have the clearing banks enjoyed such prosperity – at least insofar as their traditional high street markets are concerned. The country's almost unsatiable demand for credit has brought the banks record levels of business – and profits; all most welcome after the lean early-1980s when bankers seemed to spend most of their time nursing ailing customers. This year, the Big Four are expected to earn a total £4.5bn in profits, pre-tax.

The boom has been timely in many other respects, too.

It comes, for one thing, just as the banks are facing a new competitive onslaught from the newly-deregulated building societies. But the combination of a fast-expanding loan market, particularly in mortgages, and the banks' own aggressive response to the societies has helped keep their business secure.

High domestic banking profits have also coincided with severe strains in other parts of the banking business: without the buoyancy of their traditional high street market, the clearers would have found it much harder to ride the shocks of Third World loan provisions (which cost them £3bn) and losses on their Big Bang-related ventures into investment banking.

But the question, as banks head into the last quarter of 1988, is how much longer the good times can last.

The sharp rise in UK interest rates over the summer will have a mixed impact. Higher rates no longer bring automatic profit increases, because the banks have less in the way of interest-free deposits these days to fund their loans. But the rise could smother the credit boom and produce a slowdown in the banks' business growth.

Capital adequacy (%)	
Barclays	10.2
Lloyds	10.3
Midland	10.9
NatWest	8.4
Standard Chartered	10.3*

*Including proceeds from divestitures and rights issue.

Figures represent estimates of capital/risk asset ratios based on the Basle capital convergence proposals. Under the proposals, banks must have a minimum 8 per cent by 1992.

Source: Warburg Securities estimates

A contraction of the loan market will identify more clearly the winners and losers among the banks and building societies. Although banks have wrested home loan business from the societies, the societies are winning the battle in the high street for deposits. The question over the next year or two is just how far the societies will use their new powers to offer banking services and establish themselves as fully fledged loan institutions. The indications so far are that they will proceed cautiously.

If there are tougher times ahead, the clearers will have to redouble their attack on costs, which have started to creep up again because of their heavy investments in new technology. Nonetheless, technology is expected to play an ever more dominant role in the banks' strategies as they develop new forms of cashless payment and seek to automate their back offices.

Difficult times will also highlight the need for capital strength – now a major issue with the introduction of the recent Basle agreement on international capital adequacy. According to calculations by Warburg Securities, the stockbrokers, all the Big Four have sufficient capital to meet the new rules due for introduction by 1992.

The fifth bank, Standard Chartered, is making a £303m rights issue to replenish reserves which have been battered by provisions and losses. Standard's fate still seems to lie in the hands of its "white squire" shareholders, though the bank is making a game effort to restore its international business to profitability and develop worthwhile segments of the UK corporate banking market. Mr Rodney Galpin, the former Bank of England director, takes over as chairman next month.

The major long-term question facing the clearers is how to respond to the creation of the integrated EC market in 1992.

Pre-tax profits (£m)	1987 full year	1988 half year
Barclays	339	618
Lloyds	-248	462
Midland	-505	313
NatWest	704	702
St Chartered	-274	156
TSB	276	212

Although banks like Barclays have been quick to set themselves up as "the bank for Europe", there is already a strong sense in the business that 1992 will produce few immediate changes. Bankers may also find themselves on the defensive rather than the offensive.

The UK clearing bank market has been widely identified as one of the most attractive in the EC, because of its profitability and openness. Research commissioned by Brussels has shown that the cost of commercial and consumer loans in the UK (measured as the margin added on by banks to their own money costs) is among the highest in the EC. The one exception is the mortgage, which is the cheapest in the EC – a telling reflection on the effects of competition in the home loan market.

The high margins are bound to attract eager newcomers to squeeze the clearers' traditionally high returns. This, in turn, will force them into further reappraisals of their costs. The EC study forecast that 1992 will reduce the intermediation cost of commercial loans by nearly half.

No banker would say that the recent period of hectic change in the banking business is over. The 1990s promise major upheavals with the evolution of new competitors, and further refinements of technology, particularly in the manner in which banks deliver their products.

David Lascelles

Profile: TSB, which has become the fifth major player

Emphasising the difference

THE GILT and marble found at the London headquarters of the four big clearing banks is conspicuous by its absence at the unpretentious Milk Street home of the TSB Group, tucked away between St Paul's and the Barbican.

Narrow corridors and small rooms project the workaday atmosphere of the late 1960s with no frills. The contrast is deliberate. Though TSB has established itself as a fifth major player in the UK banking market in the two years since its flotation, it still sees itself as different from the other clearers.

"We have established ourselves, but our place in the market is not the same as that of the other clearing banks," said Sir John Read, TSB's chairman, who has presided over its transformation, during the last two years, into a unified private sector banking group from a loose federation of savings banks.

As Mr Don McCrickard, group chief executive for banking, puts it: "TSB is not, and never will be, a lookalike for the four big clearers. We are a different animal, a broadly based financial services group, rather than a clearing bank; though funnily enough the other banks are now moving in the direction we have already taken."

For much of the past year, TSB has been preoccupied with necessary follow-up operations to its stock-market flotation. In November, it acquired Hill Samuel, the City merchant bank, at what was widely regarded as a high price in the wake of the crash. Mr McCrickard described the purchase as "strategically critical".

"We had to get into commercial corporate lending, and doing so would have taken a former savings bank by itself a lot of time. We couldn't just turn up at the doors of potential customers without an introduction," he explained. He says that, since it became a member of the group and able to tap TSB funds, Hill Samuel's banking business has exceeded the best expectations.

Five months after the acquisition, TSB announced a major streamlining of the complex and unwieldy structure it had inherited from before the flotation. All merchant and corporate banking activities were concentrated within Hill Samuel, with Mr Hamish Donaldson as its managing director. Mr McCrickard was made chief executive for retail banking and related services in the group's other arm. However, the old TSB and Hill Samuel treasuries have been merged.

"The world knew that TSB was underlent," says Mr McCrickard. "Now Hill Samuel will be able to grow its lending using the cheap deposit funds we have. We have tried to avoid the esoteric end of the merchant and investment banking markets, however."

On the retail banking side, the magic words at TSB are "cross-selling" and "technology". The bank says it sees its 1,650 branches as "sales channels", through which different services can be directed to individual customers by technology and a sales force.

Mr McCrickard believes TSB's major advantage over its competitors lies in its computer technology. "We are the only London-based bank with real-time on-line technology," he says. "It enables different services we have to talk to each other."

TSB's half-year results, announced at the end of June, offered the world a fairly healthy picture of growth during its first six months since the Hill Samuel takeover, with pre-tax profits up by 29 per cent to £212m. Bank analysts at the major City security houses, sceptical or dismissive of TSB since the flotation, began to make more appreciative comments.

However, most would probably be happier if the bank were seen to be making fuller use of its post-flotation resources. Its capital-to-assets ratio remains the highest of any major bank at 1:12, and Sir John Read admits that the bank is "still ungeared".

One way forward would be *further acquisitions*, and the bolstering of TSB's branch network, which is patchy in the south of England. However, TSB has withdrawn from one likely purchase – Girobank, the Post Office banking subsidiary that is being sold this autumn.

Acquisitions and growth are problems that await Sir Nicholas Goodison, the bank's next chairman, when he takes over in January. Unlike Sir John Read, whose main role has been to weld the group firmly together and bring in new managers at the top, Sir Nicholas's task is likely to centre on the development of strategies for the bank in the financial markets of the 1990s.

David Barchard

UK BANKING 4

High street banks are becoming mass providers of new services

Technology in the front line

HIGH STREET banking, long one of the unchanging certainties in millions of Britons' lives, suddenly looks very different.

Step into the Parliament Street branch of Midland Bank, in York, for instance, and in an open-plan office you are greeted initially by machines that answer humdrum questions about balances and statements.

Farther back wait the staff, at open desks, freed by technology from sorting paper, ready to counsel customers about their financial needs, hoping to sell them some of the bank's growing range of investment, insurance, loan and mortgage products.

Personal and retail banking has been detached increasingly by the big banks from small business and corporate services. Barclays, for instance, has set up 800 business centres, to provide businessmen with specialist services that were previously available only through branches.

The changes show the power that electronic technology has given the banks to be providers of mass financial services on a scale never before possible.

But it is not only the traditional clearers that are able to take advantage of the changes. The banks face increasing competition for their traditional core business from newcomers. Interim results for the first half of this year suggest to some that competition may already be slowing down their profit growth on domestic business.

Part of the competition comes from an increase in the number of banks. What were until recently relatively peripheral institutions, such as TSB or Girobank, have turned into fully fledged competitors, able to offer customers everything from current accounts to gold cards and mortgages. Totally new players have arrived in the market, such as Save & Prosper and HFC Bank which claims to cater especially for the family.

Behind them are building societies, almost all of which can now offer customers the services they used to expect only from a bank. Building societies have a ready-made customer base and enormous goodwill to draw upon.

Farther off are other challengers, also able to benefit from the easy penetration of the market which technology has made possible. After 1992, banks from other European countries may try to enter the British retail finance market — some are already coming into the mortgage market.

Another source of potential rivalry is much closer. In many towns, mainstream traditional retailing is leaving the high street with amazing rapidity, migrating to large American-style hypermarkets on the edge of town.

Hypermarkets handle business which, in the pre-electronic age, would have belonged to a dozen or more different types of shop. Almost the only things they do not yet dispense are money and banking services — though one or two stores now contain automated teller machines.

The advent of Eftpos (electronic fund transfer at point of sale) shopping, using a plastic card in an electronic terminal, has already forced the banks to negotiate seriously with the retailers.

The initial assumption that the banks were the side with all the clout (reflected in Barclays' ill-judged launch of its Connect debit card in the summer of last year) has quickly been dispelled. Later generations of debit cards, such as Switch cards planned by NatWest, Midland, and the Royal Bank of Scotland, have been designed with the retailers' wishes in mind.

Many retailers, however, now make their own plastic cards for use in their terminals. Marks and Spencer has never allowed its customers to use plastic credit cards issued by banks, and has gone a step further — as have three other major retailers — by acquiring a banking licence. Latterly it has taken yet another step by entering the personal loans business. Its long-term intentions in the financial services market remain a closely guarded secret.

Meanwhile, all the major banks have set up their own debit cards (the first Switch cards are expected to appear before the end of the year), which should have the effect of refocusing individual consumer financial management on the current account, and diverting attention from the rapidly widening range of secondary accounts, such as those of credit cards, until now used for consumer purchases.

For much of this year, however, the banks have enjoyed a booming market. In the first half, Barclays' personal loans business was growing at an annual rate of 42 per cent. Even banks which professed themselves to be more cautious, such as NatWest, saw their personal loans growing at over 25 per cent.

Business is likely to slow down in the second half of the year, but high interest rates are not necessarily the bad news for banks that they are for everyone else. As one veteran bank manager puts it: "The spreads we enjoy today are wider than they have ever been. The business of making money has never been easier for us."

Making money is easier, because of the increased numbers of bank customers who have inherited large sums from their parents, usually from the sale of the parental home, and who for the first time in their lives need services such as higher rate deposit accounts, share dealing schemes or unit trusts.

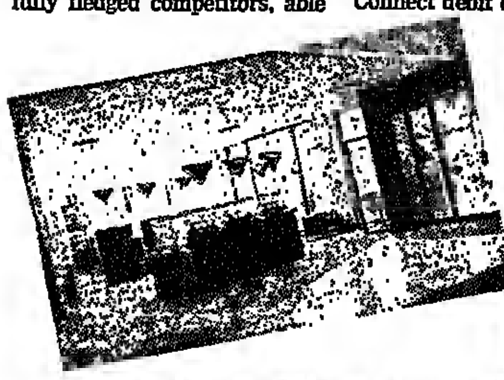
In this lucrative but competitive environment the major battle is for market-share, with advertising and promotional campaigns becoming steadily more important.

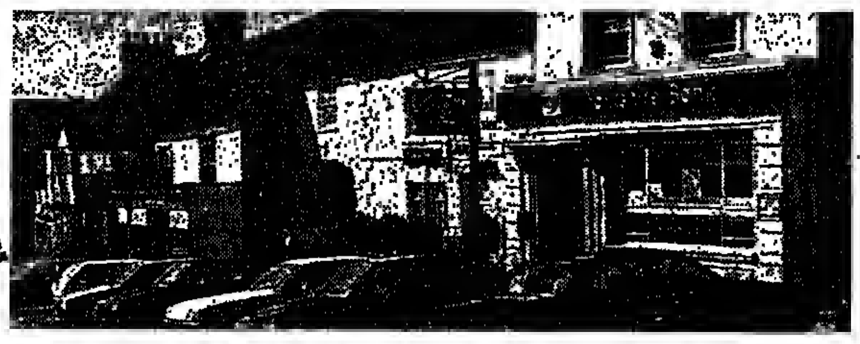
So, too, is the search for new customers. Despite the proliferation of institutions that offer current accounts, banks know that — at least until now — only a few adults change their bank accounts, and that those who do have often got into some sort of difficulty.

Some banks have succeeded in growing current account bases by finding vacant niches. The growth of Girobank's current account holders to 2.2m, for example, is linked to its ability to attract housewives who are looking for a subsidiary family current account.

The main search, however, is for youth and student customers, who are likely to stay with their bank as their careers mature. Competition is stiffened by the knowledge that, in the 1990s, there will be a sharp reduction in the number of teenagers. The message for banks that want to hold their customer base seems to be that they must catch them young, sometimes even before they leave the piggy-bank stage.

David Barchard





Yorkshire new and old: technology at the Midland, in York (left); and Yorkshire Bank's smallest branch, at Kirkbymoorside

Good neighbours, but the competition is becoming intense

Building societies are revelling in their new powers, but . . .

Good times are deceptive

AFTER A miserable year in 1987, when they were squeezed hard on both sides of their business, UK building societies seem to be on top of the world in 1988.

They are rapidly, and so far successfully, diversifying into a wide range of new retail finance activities, made possible last February by the Schedule to the Building Societies Act. The past 12 months have seen societies going into cheque-clearing, credit cards, share dealing, personal loans, pensions, and even unit trusts.

However, the chief reason for their contentment is that their two main lines of business are booming. Funds are pouring in from small savers in record amounts, having run at more than £1bn for every month but one since last November.

Mortgage lending is also at an all-time high and, although competition with banks and mortgage companies remains severe, the societies have clawed back the market share that they lost in 1987. They are currently believed to have about 65 per cent of the mortgage market — not bad when the market is far larger than it has ever been.

The combination of booming business and successful diversification may be deceptive. Most building societies are aware that they live in a volatile and increasingly competitive environment. The planners in the societies have not forgotten that, a year ago, savings were streaming away into unit trusts and that their share of the mortgage market had fallen to 46 per cent.

While there is no sign yet that the good times are likely to stop, the societies are doing some hard thinking about their long-term prospects. The immediate task for many of the top 30 is to take up the additional opportunities for diversification they got last February.

With a limited capital base, societies have to choose very carefully which new activities they will go for. Even at the Halifax, by far the largest, the view is that "a single society can't attempt everything". In the Halifax's case, this has meant going for credit cards and a sophisticated cash card system, but not for a cheque-book, paper-based money transmission or home banking.

By contrast, Abbey National and Nationwide Anglia, the other two of the big three societies, have set up current account systems with cheque-books. Most societies can cut the costs and risks of diversification by reaching an agency agreement with a bank or other financial institution.

For example, most have agency agreements for their personal loans business. Co-operative Bank processes Nationwide Anglia's FlexAccount cheques, and even the Halifax Visa card, launched in June, is processed by the Bank of Scotland rather than in-house.

For the second-rank societies, agency agreements are often the only practicable arrangement. Their size, as well as the cost, debars them from certain activities. The banks' bulk electronic clearing system (BACS), which handles direct debits and standing orders, this summer relaxed its criteria for membership — but they still exclude most building societies smaller than the top five or six.

The enthusiasm for diversification is an admission that, in a deregulated market, building societies can no longer get by solely on their traditional two lines of business. To diversify, however, they cannot do what banks and companies would and raise equity capital — though, since the beginning of the year, they have been allowed to raise long-term subordinated debt. To raise equity, they would have to use another power given them by the Building Societies Act and convert themselves into companies and become banks.

All the larger societies except Nationwide Anglia and Woolwich have looked at the possibility of conversion to limited companies. Halifax, for many years the chief guardian of the mutualist ideal, announced last January that it was appointing N.M.Rothschild, the merchant banker, to advise it on conversion and other strategic options. However, in July it revealed that it had decided not to incorporate, at least for the next two years. A similar conclusion was reached by Leeds Permanent, the sixth largest society.

Medium-ranking societies face a harder choice, because most recognise that they would stand little chance of independent survival once the statutory five years' protection from takeover ended after incorporation. However, it is a sign of the times that this does not deter everybody. The chief executive of one smaller society says: "Conversion would gain the society at least seven profitable years before the takeover. I think any society should be prepared to consider such a step."

Several societies have held negotiations with insurance companies and retail organisations about incorporation through absorption — a much harder route than simple conversion into a company, as it requires many more members to vote.

So far only one, Abbey National, has declared outright that it favours conversion, though two others — Alliance & Leicester and National & Provincial — are believed to be close to making similar announcements. So 1989 could yet see several building society incorporations.

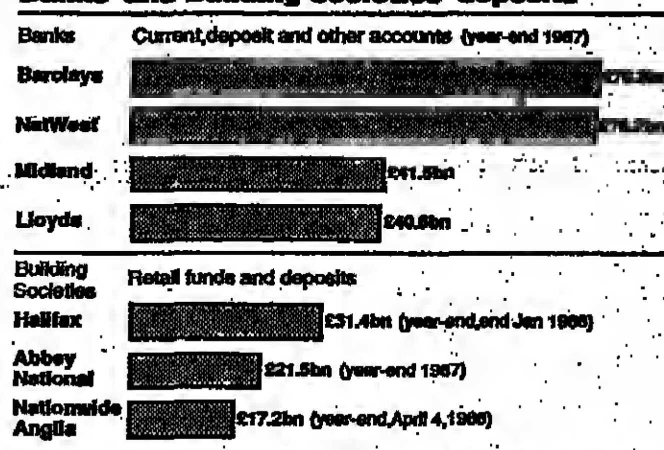
However, most of the 112 surviving UK building societies are much smaller than these institutions, and face harsher choices. They can see that the number of societies is declining and that, unlike banks, no new building societies are being formed. Much depends on how successful building societies are in competing with the clearing banks in the retail financial markets. Already most can now offer the main traditional services of a bank, and a few — including Nationwide Anglia and Abbey National — are competing directly with the banks.

To enable them to compete more effectively in the electronic payments systems, the two rival building societies' ATM networks, Matrix and Link, announced a merger two months ago, creating a network comparable roughly with that of the largest banks.

However, with few exceptions, most of the major captains of the building society industry, whatever they say in public, tend to feel privately that the only road to assured long-term survival is likely to lie in plc conversion, and not in simply tinkering around with their existing activities.

David Barchard

Banks' and Building Societies' deposits



Source:Datastream and Building Societies

PROFILE: ABBEY NATIONAL

Adventurous and different

ANY INSTITUTION planning a stock market flotation has to have a good story to tell the market. Abbey National, Britain's second largest building society, is no exception.

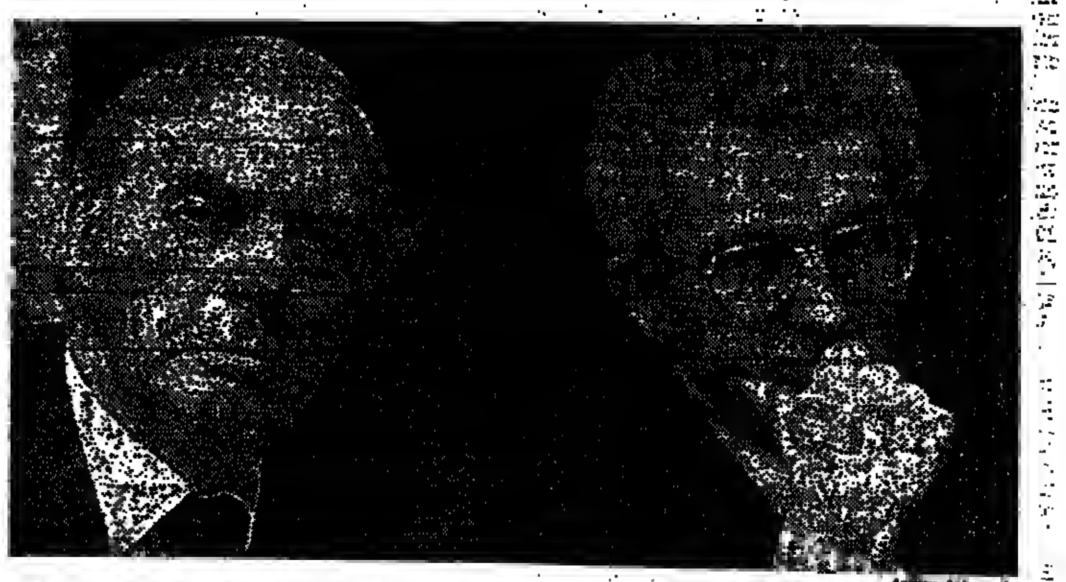
Though its total assets of £26.4bn come well behind the £33.0bn of the Halifax, its profits last year of £226m were slightly higher. Its management expenses were lower and its free capital ratio of 4.06 per cent, a key indicator of building society capital adequacy, was well above Halifax's 3.11 per cent.

These indications of strength are matched by a certain adventurousness. Abbey National has been first into many areas of business at a time when all building societies have been diversifying rapidly. It is, for instance, the only society so far to cross the Channel and launch a subsidiary in another EEC country.

Abbey National has also gone further than most other major societies in using its new powers to venture into the heartland of retail banking. In March it launched a full-scale current account and cheque-book service, and followed it by becoming the first building society member of the Cheque and Credit Clearing Company, the cheque clearing service of the big banks.

Behind these innovations lies a corporate culture that has long been somewhat different from that of most other big building societies. Abbey National is a London-based organisation, with its headquarters in Baker Street. It has a metropolitan feel to it, with no speck of provincialism. Its branch structure is similarly skewed towards the south-east.

Instead of looking back to thrifty mutualist founders in the 19th century, it reflects the spirit of the 1930s and 1940s (when it was created through a merger). It dropped the "building society" tag from its logo about 12 years ago — though, as Mr John Bayliss, its general manager for operations, admits, without any inkling of the significance that this would eventually have.



Ashley Ashwood

Sir Campbell Adamson (left) and Mr John Bayliss

Abbey National was also the first society to talk the language of business, speaking routinely about customers (instead of members) and profits (instead of retained surpluses.)

All this made it a natural candidate to be the first building society to convert itself into a limited company after a flotation, tentatively promised for early next summer. Kleinwort Benson, the City merchant bank, had been working for over a year on a long-term strategy for Abbey National, of which incorporation is only part.

However, the course of events since Abbey National announced its decision have been somewhat unhappy. The appearance of a group of members determined to fight flotation was not a surprise, but the professionalism they have shown in getting their case across through the media was.

Nor can Abbey National have been entirely prepared to find the government which had made incorporation possible for building societies adopting an attitude of distinctly chilly neutrality towards those attempting to do so.

The goal remains an extraordinary general meeting, early next year, to vote on incorporation. At least a fifth of the society's 6m members must take part in the vote, and there must be a 75 per cent majority.

Though the initial stages of Abbey National's campaign to inform its members about the issue are agreed to have been lacklustre, most other building societies believe the necessary majority will be obtained and that incorporation will go ahead after a stock-market flotation likely to be around £1.5bn. Members are likely to be given at least some free shares, ensuring a degree of continuity in ownership.

Incorporation has already stimulated some changes in Abbey National, making it more like the banks. When its conversion plans were announced, the society had only two executive directors. It now has four.

Abbey National will then have the status of a bank, regulated by the Bank of England, but it will not, Mr Bayliss says, become just another high street bank. He wants it to be a specialist provider of cheap high-quality retail financial service products, centring on its traditional core business of mortgage finance but steadily diversifying its range.

He and Sir Campbell Adamson, group chairman, believe that without incorporation building societies will find it hard to hold their own in the markets 10 years from now.

The change will leave Abbey somewhat more vulnerable to a takeover than any of the big four clearing banks, though it will be protected for the first five years after incorporation, and the board are confident of their ability to fight off predators.

David Barchard

UK BANKING 5

FOREIGN BANKS IN LONDON

Some may prefer Europe

DESPITE THE problems which have unsettled the commercial and investment banking community since last October's stock market crash, the number of foreign banks in London continues to grow.

At mid-year, say the official figures, there were 450 overseas-owned banks in the City, along with 140 securities firms, offering a sprawling range of financial services, from retail banking to sophisticated financial engineering.

Here is weighty evidence, if any were needed, of the continuing process of financial globalisation and the ongoing attractiveness of London as the world's leading financial centre.

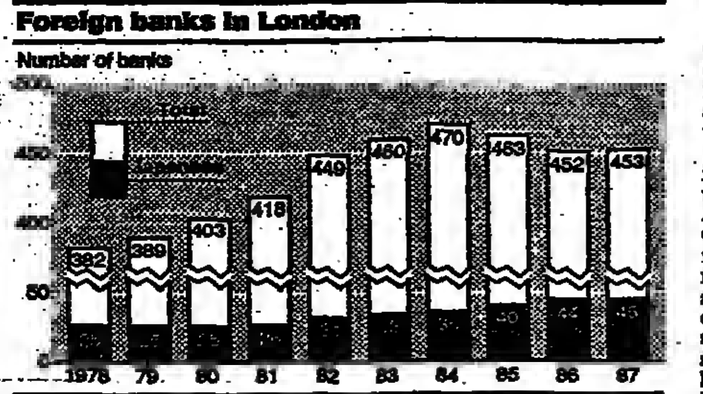
"New York and Tokyo may be increasingly important for firms wishing to tap the huge US and Japanese domestic markets," comments the recently-arrived head of a French bank's expanding London branch. "But it's London you come to for the international markets. This is the only place where you could imagine headquartering a Credit Suisse First Boston, Deutsche Bank Capital Markets or Salomon Brothers International."

Yet lunch anywhere in the Square Mile nowadays, and the conversation readily turns to the implications of 1992 for the City's international standing.

Since European institutions will then be able to market their financial products community-wide from their domestic bases, some pundits predict that it will no longer be necessary to run an expensive London office. There are suggestions that non-European banks will flee from the City's new regulatory regime and steep costs for the relative low costs and supervisory simplicity of continental centres.

The move away from London could well be exacerbated, some analysts forecast, by the shake-out in the Eurobond and gilt markets, the decision of many US houses to cut their London operations drastically, the imposition of a new regulatory regime, and the fact that many of the foreign firms that invested heavily in London

Foreign banks in London



stockbroking firms in the wake of Big Bang, two years ago, have been among the hardest hit by the crash.

As evidence, they cite the recent decision of six Japanese institutions to open operations in Frankfurt rather than strengthen their branches and subsidiaries in Britain.

Not surprisingly, Stephen Raven, who chairs the Stock Exchange's 1992 committee, admits being concerned; as does the London School of Economics' monetary specialist, Prof Maghdad Desai. And investment banker turned regulator Stanislas Yassukovich has been predicting that some overseas institutions might shut up shop and head for Paris and Amsterdam.

However, some argue that the move towards harmonised capital adequacy standards worldwide and stricter international regulatory requirements are likely to help confirm London's position. Their general assumption is that joint stock financial companies will want to be seen by their shareholders, depositors and clients to be well supervised and effectively regulated.

Foreign banks in London are concerned with many different yet intermeshing financial markets. A few institutions, such as those from Ireland and Pakistan, try to penetrate the local retail sector. Others, such as the Nordic banks, come because they can serve their domestic corporates' international needs better from the deregulated City than from their own more closely supervised capitals.

Some — particularly the French, Italian and Austrian banks — are keen to participate in the booming trade-finance field. Increasingly, many are trying to mova into the local British corporate market. Usually, however, banks set up shop in the Square Mile to participate in the international capital and financial markets which revolve around Throgmorton Street, Lombard Street and Moorgate.

Given the uncertainty of recent months, it is difficult to assess precisely what is happening in the markets. But seasoned observers maintain that, with securities business torpid since the crash, many banks are seeking alternative areas of business. Some of the big US firms, for example, believe there is an upswing in that golden product of the 1970s, syndicated lending, and are strengthening their loan teams in preparation. And many commercial and investment banks are cashing in on advisory fee-earning services, such as mergers and acquisitions.

Indeed, M&A is probably the fastest-growing sector of the London banking market at the moment, with large US, British and continental banks — not forgetting a few boutiques — battling it out for their own share of the fast-expanding, multi-billion dollar transborder market. According to a recent survey by business consultants Booz, Allen & Hamilton, 84 per cent of European Community chief executives plan cross-border mergers. And they are more likely than ever to appoint banks in London as their advisers.

Another area of increasing interest for foreign houses is the domestic corporate market. A number — mainly French, German, Japanese and US commercial banks — are trying to make inroads among medium-sized companies. The recent decision by Deutsche Bank to set up a branch in Manchester shows its determination to build a corporate finance base in one of Britain's leading manufacturing areas. Other continental banks are thought likely to follow suit.

One business sector that is proving attractive to foreign-owned banks is risk management. Increasingly, overseas banks are marketing swaps, futures, options and derivative hybrids to British companies. And several — for instance, Chase Manhattan — have set up risk management consultancy services whereby, for a fee, specialists will examine the intimate details of a company's operation and recommend risk-control tactics.

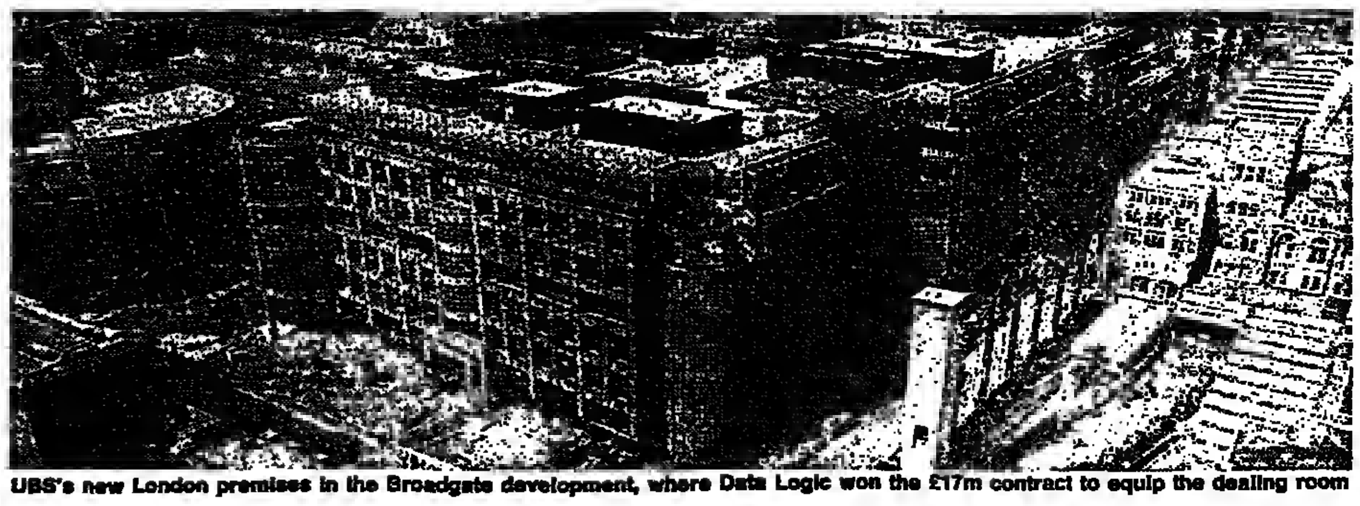
Other houses — Citibank, for example — have set up financial engineering departments, whose hedging and other specialists prepare customised packages to help corporations manage all aspects of their risk.

Needless to say, increased competition for British corporate business does have its downside from a banking point of view: finer margins and lower returns. And many in the Square Mile are worried that they are not getting an adequate return.

But as they look towards 1992, foreign bankers in the City are generally optimistic. They say that deregulation, coupled with a single market, will bring a new boom in financial services to Europe, and that the obvious place from which to take advantage of it will be London.

Marjorie Ritson

UBS, profiled by Sean Heath, has been in London since 1967



UBS's new London premises in the Broadgate development, where Data Logic won the £17m contract to equip the dealing room

City's stability appreciated

UNION BANK of Switzerland aims to remain one of the 20 or so universal banks. It has the membership credentials for this club, operating across a wide range of banking and securities markets, and with operations in the three vital time-zone centres: London, New York and Tokyo.

London is the major area of development, following the purchase of Phillips & Drew two years ago. A reorganisation, due by the end of this year, will create a more integrated operation that offers all the services of a universal bank. The purchase and internal expansion has taken staff numbers in the City from a few hundred to over 2,000 in less than five years.

The London branch opened in 1967, UBS being one of many foreign banks seeking to tap the emerging Euromarkets. It was UBS's first operational branch abroad, although it had had a representative office in New York since 1940. An investment banking arm, UBS Securities, specialises in the international capital markets.

With Phillips & Drew, the bank now offers a full range of wholesale banking services. Later this year, Phillips & Drew will merge with UBS Securities to create a new investment banking unit.

At the same time, the whole operation will move to the Broadgate development in the City. A 600-position dealing room is being built on two floors of a seven-storey building rented as a shell and fitted out by the bank.

UBS is organised on a regional basis. In charge of the UK operation is Rudolf Müller, aged 53, executive vice president (UK). He joined the bank in 1977, after nine years with James Capel in Geneva and the Far East. When UBS Securities and Phillips & Drew merge he will also become chairman of the new company.

The UK market is intensely competitive, acknowledges Mr Müller, both within the financial sector and in the wider commercial banking environment, where UBS is up against the branch networks of the UK clearers, as well as City-based foreign and merchant banks.

In this market-place it has targeted active domestic companies, in addition to the multinationals and UK subsidiaries of Swiss companies that are the natural customers of an international bank. Among small and medium corporates, the bank aims to pick fast-growing companies that are likely to have an international dimension to their business, and to let the relationship grow as the company grows.

"We have had a tremendous success in Switzerland with small and medium sized companies which we have supported and watched grow into major customers," says Mr Müller.

He concedes that such a course is more difficult in the UK, where UBS does not have a branch network. However, its prominence in areas such as Eurocurrency and capital markets has helped it establish relationships with a wide range of companies, complementing the efforts of the commercial banking division.

"Once we establish a relationship with one part of a company, we can often expand it to others," notes Mr Müller. In this respect, the acquisition of Phillips & Drew has opened up a huge new pool of potential customers, because most of its clients are UK-based.

He is also taking into account the changes thet 1992 will bring. "Cross-border corporate activity will increase, and companies which are now UK domestics will be looking across borders," he predicts. "This kind of business is very interesting to us an an international bank, and we would like to be involved with companies as they widen their horizons."

UBS's own acquisition of Phillips & Drew was picked as a complement to the international capital markets orientation of UBS Securities. Phillips & Drew has a strong UK base, covering primary and secondary dealing in gilts and equities. It is known as the number two institutional broker in the UK, and also has a highly regarded research capability. Corporate finance expertise, an asset management group and access to a domestic distribution network added to its attraction for UBS.

One minor overlap, between Phillips & Drew's private clientele and that of UBS will be settled when a new asset management company is set up next year, to concentrate on institutional business, while all private business is moved to the branch.

The merger will be helped by the bank's reorganisation last year on a regional basis, which directs reporting from all the UK units to the regional management in London. Mr Müller believes the autonomy given to the UK operation strengthens its effectiveness and assists integration.

UBS's international operation has grown rapidly after a late start. It is number one in Switzerland and ranks 27th in the world by assets. It employs just under 21,000 people.

Mr Müller sees the stability of the City as a major factor in the choice of London as the bank's most important overseas development. "It has always managed to remain isolated from political interference."

He believes this will help London to remain Europe's major financial centre after 1992. "It takes many years to build such a position. It also takes continuity." He points to Germany, where new withholding-tax rules look likely to be a setback, and France where the financial market-place is very susceptible to political change.

He sees the UK offering an environment similar in many ways to Switzerland: the same breadth of activities and self-regulatory code. "The similarity gives us the opportunity to use all our strengths, knowledge and expertise. We don't have to adjust our strategy."

Discount houses: the Bank has sprung a pleasant surprise

New life for an old concept

FOR SEVERAL decades London's eight discount houses have been regarded as the banking equivalent of an endangered species — a gentle adornment to the City's banking habitat, but one steadily dwindling in numbers and, unless carefully sheltered, likely to disappear altogether before long.

Discount houses deal directly with the Bank of England in the sterling money market, and are the valve through which liquidity passes from the central bank to the commercial banks. They are crucial to the Bank of England's open market operations and its management of the money supply. By dealing only with discount houses, the Bank is shielded from the need to have a direct dealing relationship with the commercial banks themselves.

Though the discount houses are small organisations, with capital of under £100m and fewer than 250 staff in all, their work involves handling vast amounts of money, between them perhaps the equivalent of 20 times the gross national product a year. They also deal in gilts (to hedge themselves again long-term interest rate risks) and in discounted trade bills — hence their name.

No other major industrial country's central bank handles these tasks in this way. This fact, and an enduring fidelity to the style of their 19th century antecedents (including the use of top hats), has led many to view the discount houses as anachronisms.

This summer, however, the Bank of England has given the discount houses a mild surprise. Far from sweeping them away, it is inviting the establishment of new ones. A Magenta Paper, issued by the Bank in June, offers draft proposals for the creation of more discount houses; and, from the end of October, applications are invited from firms "wishing to establish a dealing relationship with the Bank in money market instruments".

In the world of discount houses, agitation and hostility, if not actually unknown, are never permitted to become visible; and the existing houses have responded gracefully to the idea of newcomers.

"The good news in this is that it means the Bank of England will continue to use discount houses as channels in sorting outthe end-flow of funds," says Mr Graeme Gilchrist, the managing director of Union Discount, the oldest of the eight houses. "There is no reason why competition should be bad for us. We have been doing this job for rather a long time. We don't make a great deal of money out of it, and in fact we are all diversifying our business."

Mr James Barclay, chairman of Cater Allen, says he would welcome between two and four new houses being set up. "I think [the Bank of England's decision] is rather a good thing," he says. "We need some new strong members. They will serve to highlight the Bank of England's methods of dealing with money flows. There used to be about 20 discount houses, and there were still 12 when I joined."

So far there have been no announcements about who the new discount houses are likely to be, though it is possible to make some guesses by looking at security house operations in discounted bills. Likely contenders include Warburgs, Greenwell Montagu, Philips & Drew, and Morgan Grenfell. Since four of the eight existing discount houses are now foreign-owned, this would represent an infusion of British ownership into the discount houses market.

However, it is less easy to be sure that the newcomers will find the rewards they are hoping for. Discount houses have a very close relationship with the Bank of England, visiting it daily, reporting to it once a fortnight, and being formally supervised once each quarter. This is largely because they trade on very high multiples: the permitted maximum having been doubled from 40 to 80 last year.

The profits that this brings are, by City standards, relatively modest. Union Discount pleased the market by reporting pre-tax profits of £11.0m on a balance sheet of £3.2bn last year — better than the forecasts; while Cater Allen had a post-tax profit of £7.15m (up 30 per cent on 1986) on a balance sheet of £3.2bn.

An increasing share of profits comes from diversification outside the traditional market-making operations of the discount houses. Cater Allen's profits from diversified activities rose from £700,000 in 1986, for instance, to £2.4m, or slightly more than a third of the total, in 1988.

The houses are diversifying in different directions, to get away from the volatile business of dealing in bills. Cater Allen has gone into insurance underwriting and offshore banking. Union Discount has ventured into leasing, asset management, and equity market-making with Winterflood Securities. Gerrards have gone into stockbroking and futures.

"We are all taking bits of capital out of the discount market," says Graeme Gilchrist. This trend goes back several years, but 1988 has not been a good year for the houses' core business, with interest rates rising sharply since May.

"The danger is all on the up side," says Mr Gilchrist. "You have always got paper and can't get out of the market, so you get caught even if you know that rates are going to go up."

So it may seem remarkable that new entrants are now stepping forward to put up anything between £50m and £100m in capital to become discount houses, especially as the existing ones may prove hard to dislodge. Mr Gilchrist says that the old houses "have a lot going for them and are going to stay".

However, he concedes that they, too, have changed. "We have not been taken over, since we were not growth companies but income stocks. But now we are beginning to think of ourselves as growth companies."

Even before the advent of competitors, this is creating some ripples. Last year, Sir Ron Brierley, the non-executive chairman of the Bank of New Zealand, acquired a 17.2 per cent stake in Union Discount. This has been followed by a friendly, but perhaps deliberately, counterbalancing purchase of a 10 per cent stake by the Kuwait Investment Organisation.

The discount house market is a shade less sedate than it used to be.

David Barchard

COMMERCIAL BANKING

Eyes on the mid-market

IN THEIR search for profitable markets, in which to sell their products and services, the UK banks have turned to their own and each other's medium-sized corporate customers.

This is an increasingly sophisticated market. Its business needs offer new opportunities to banks to sell products originally developed for the top-end corporate giants and multinationals — where returns have been whittled away by competition and their ability to deal directly in the financial markets.

The treasurers and financial directors of medium-sized companies are usually expert in their field, often with a background in a major corporation. They are prepared to shop around to get what they want.

To service this sector, the major UK banks have set up networks of corporate banking centres. They have also adopted the relationship banking approach, originally copied from the US banks and initially confined to major customers.

The approach has differed from bank to bank. Barclays has turned 225 existing branches into corporate banking centres, with split responsibility for personal and business customers. NatWest, Midland and Lloyds have set up a limited number (100 or less each) of new offices in addition to the existing branch network.

Under this approach, the targeted middle-market customers continue to keep their accounts and administrative contacts with their branch, but the responsibility for the relationship shifts to an account manager in the new commercial banking office. He is the manager with whom the customer will discuss his business and his needs, and who will arrange finance and advise on banking services.

Credit assessment is also transferred to the commercial banking office, and lines of communication shortened so that loans outside the manager's discretionary powers can be referred upward with the minimum of bureaucracy or delay.

The only other major activity in the office will be research into customers, potential customers and their needs. The account managers are freed of all the normal branch activities so as to concentrate on their business customers.

Personal customers and small businesses continue to bank with the existing branch network as before, and the major corporates with head office specialists.

The number of companies involved is not large, and estimates depend on the way the middle market is defined. Lloyds reckons there are some 1¾m microcompanies with turnover of less than £500,000, and 128,000 mid-market companies with turnover of between £0.5m and £25m.

Barclays, NatWest and Midland, using a starting point of £1m and varying top figures, see the market at around 60,000 companies, most of which will

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There are new powers and new faces at the Bank of England

Less like a father-figure

WHEN MR Robin Leigh-Pemberton was appointed for a second five-year term as Governor of the Bank of England last January, be provided that institution with a thread of continuity that is becoming increasingly rare these days.

In most otber respects, everything that happens in and around the Bank is changing at a speed that must be unprecedented in its near-300 year history. The Big Bang and the market crash have transformed the face of the City. The Bank itself has acquired new powers with the enactment of tough financial services legislation. And its own top ranks are dotted with new faces following a sudden spate of departures by senior officials.

All this has stirred much debate about tbe role of Britain's central bank, and the extent of its influence. Has the formalisation of its powers made it an even greater force than before in the affairs of the City? Or has the backing of the statute book robbed it of the mystique which earned it the awe of previous generations?

In some respects, tbe changes at the Bank reflect the wider metamorpbosis in the City since Big Bang: the sweeping away of clubbish, personalised ways, and their replacement by more open and highly competitive markets where the rules of the game have to be mucb more clearly defined.

Because of this, many people have welcomed the new Banking Act which gives the Bank explicit powers to aupervise the actions of banks, scrutinise their shareholders, and obtain the co-operation of banks' anditors in regulating their affairs. Althougb this is more onerous for bankers, it ensures that the country's 600 banks (400 of them foreign) have clear rules to go by, and that London is sufficiently transparent as a major international financial centre.

The Bank also shares some responsibility with the newly-constituted Secnrities and Investments Board for the regnlation of banks' activities in the securities markets, which widens its sphere of infinence. The workings of tbe Lloyd's insurance market, corporate finance, the commodity and wholesale money markets – these are all areas where the Bank can claim a say.

But the Bank's more explicit role certainly means that there are fewer grey areas in the City where it can exercise its power – as earlier – by means of its moral authority alone. There is also a greater readiness by people to challenge the Bank – which adds a confrontational element to its dealings with the City. Altogether, this has made the Bank less of an overlord and more of a gamekeeper – and, in some people's eyes, that is a demotion.

Those who believe the Bank is not what it used to be also point to its diminished role in monetary policy, where it acts mainly as the agent for Whitehall. It is now Mr Lawson who "orders" a hike in bank rates, rather than the Bank which "signals" one. Although the Bank's quarterly bulletins continue to be widely read for their analysis of the UK economic and financial scene, they have recently dwelt more on policy dilemmas and the obvious dangers lurking in the strong UK growth rate, rather than try to make any memorable policy prescriptions.

The impression of declining stature at the Bank has not been helped by the departure of several key people. Mr David Walker, the executive director responsible for finance and industry, has left to head the SIB. Mr Walker produced much of the Bank's thinking on how UK industry and the City should be reshaped, and his departure suggests the Bank will take fewer initiatives in that area.

It is true that, with the UK economy in better shape and the Big Bang successfully accomplished, there is less for the Bank to think about outside its normal sphere; so that change too may be a reflection of the times.

Mr Rodney Galpin, the executive director in charge of banking supervision, has gone to help revive the fortunes of Standard Chartered Bank. One person who might have succeeded him, Mr Peter Cooke, did not get the job, and is leaving too. Mr Galpin's successor is Mr Brian Quinn, a compact Scotsman who is steeped in questions of banking regulation, both in the UK and internationally.

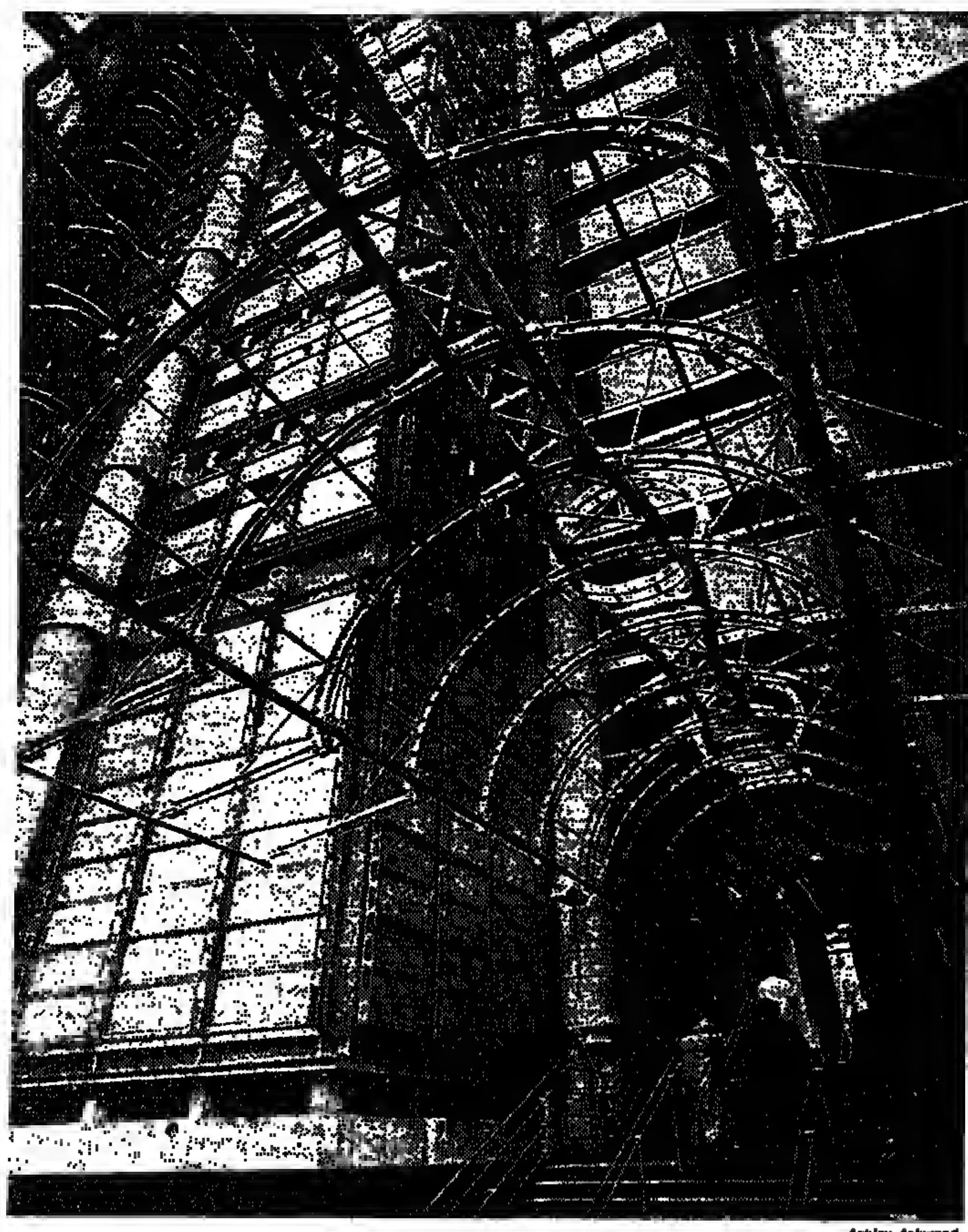
The loss of Mr Cooke was particularly ironical, because he had probably done more than anyone else at the Bank in the last year or two to enhance its reputation on the world scene. As chairman of the Basle Committee of Banking Supervisors, he oversaw the formulation of the new international capital convergence regulations – a pioneering achievement which will affect every major bank around the globe. Even though he was due to step down from the Basle chairmanship anyway, his departure from the Bank is bound to reduce its influence in international bank regulatory circles.

The main task now lying ahead of the Bank is to implement the Basle accord. The Bank has said it intends to err on the side of toughness, where there is room within the terms of the accord, in order to underpin London's reputation with regulatory soundness. This has caused some bankers to complain that business may be driven away from London, but the Bank has always taken the view that toughness pays in the long run.

Within the context of the EC, the Bank will also be involved in shaping the new Banking Directive which will create a single banking market for the Community in 1992. The Bank's concern will be to resist any measures – such as reciprocity clauses – which might restrict access to London for non-EC banks. But the effect of 1992 could also be to alter and possibly reduce the Bank's role in the supervision of banks: after that date any EC bank will be able to open up in London without seeking the Bank's specific permission.

The lawmakers and the rule-books are steadily making of the Bank more of a regulatory machine and less of the institutionalised father-figure which has dominated the City since 1694. No doubt it has seen many changes in the past, but few can have touched it so profoundly.

David Lascelles



Ashley Ashwood

The Lloyd's insurance market is one of the areas where the Bank can claim a say

SCOTLAND

Expanding south

SCOTLAND HAS seen some important banking developments in the past year. The Clydesdale Bank has passed from the ownership of the Midland Bank into the hands of National Australia Bank. The Royal Bank of Scotland is acquiring a US bank. The Bank of Scotland continues to expand innovatively south of the border. TSB Scotland selectively builds up its loan portfolio north of the border.

Scotland is overbanked. The two larger Scottish banks, the Royal Bank and the Bank of Scotland, have responded by expanding south of the border. That option was, until late last year, barred to the Clydesdale bank, and is not available to TSB Scotland.

The Midland's sale of the Clydesdale to National Australia Bank has the potential to transform the Glasgow-based institution. NAB regards the Clydesdale as its springboard, first for moving into the English market and later for an expansion into the rest of Europe.

But so far only the vaguest of hints have been given as to how that expansion might take place – with Mr Barry Hefron, NAB's UK managing director, talking of possible links with an English building society. Meanwhile, the bank is reorganising itself as it breaks away from the restrictions imposed on its lending by the Midland.

It has been divided into three profit-accountable divisions responsible for retail banking, corporate and international banking, and financial services. Bnt the men in charge, under Mr Richard Cole-Hamilton, chief executive, have been drawn from within the bank, with the exception of one senior manager, Mr Dan Tannock, an Australian on secondment from NAB.

The Royal Bank is the largest Scottish bank, and having integrated its English subsidiary, Williams and Glyn's, has 550 branches in Scotland and 330 in England. There it is pursuing the accounts of higher net worth individuals and opening branches at the rate of about seven a year, which it would like to step up to 10 a year.

The Royal Bank would like eventually to match the big four clearers, but meanwhile presents itself as "big enough to matter, small enough to care". Its sights are currently on expansion outside Britain. It should, by the end of November, receive approval for its agreed purchase of Citizens Financial Gronp of Rhode Island in the US, which it is buying for dollars 440m.

The object is to get a healthy source of dollar earnings, by providing the capital that Citizens needs to expand by acquisition in other states in the north-eastern US, assisted by banking deregulation. Citizens expects to double its asset base from $2.6bn in 1987 to $6bn or even $7bn in five years time.

Now Mr Charles Winter, the Royal's chief executive, is contemplating continental Europe, where he envisages developing links with other regional banks and looking for opportunities to provide insurance, investment management and merchant banking services.

At the Bank of Scotland, Mr Peter Burt, recently appointed treasurer and chief general manager when Mr Bruce Pattullo moved up to become group chief executive, says: "More than half our business is now outside Scotland, compared with the situation 10 to 15 years ago when about 85 per cent of it was in Scotland. We're now very much a British bank headquartered in Scotland."

But the Bank of Scotland has eschewed the traditional pattern of expansion through branches for its drive south of the border. It has about a dozen regional offices, but relies more on joint ventures with other organisations and on services that it can market nationally without a branch network.

"You could say that we consist of three financial services companies," says Mr Burt. "First we have a universal bank in Scotland. Then we have significant positions in niche UK markets – such as mortgages, often offered by intermediaries, or high interest bearing deposit accounts. Finally, we provide services for other people's clients – for example, we manage the Halifax Building Society's and the AA's Visa cards."

He points, as an example of the second category, to the bank's electronic home and office banking system (HOBS), which has customers all over Britain. "We're quietly satisfied with it," he says. "On the corporate side it's the best business development tool we've ever had."

The Bank of Scotland is interested in acquiring Girobank, and is contemplating expansion in continental Europe and in the US. "We're interested in buying anything where we have a competitive advantage," he says.

TSB Scotland is the Scottish bank of the TSB Group, reporting directly to the Bank of England, but sharing common services with the rest of the group where feasible.

Mr Eric Wilson, the managing director, is guiding the process whereby the bank builds up a portfolio of borrowers and broadens its customer base from a concentration among very young and rather elderly savers, few of whom were very affinent. Ten years ago the bank's assets consisted entirely of financial instruments such as gilts. He does not reveal the present break-down of assets, but stresses:

"We have aimed to build a profitable portfolio of lending, not just lending on very fine margins. We've gone for quality not volume. Our bad debt record demonstrates this – our loss ratio is excellent. Our customer profile has changed very rapidly."

He says TSB Scotland now has a mortgage portfolio larger than that of the Dunfermline Building Society – Scotland's biggest indigenous building society – and uses mortgages to help expand the bank's customer base among asset-owning people. The bank recently launched Elect, a banking service designed to attract more affluent customers – it has identified a target market of about 250,000 in Scotland – based on an interest-bearing cheque account.

Untrammelled by past banking habits, it can aggressively employ modern data processing techniques and is investing heavily in new technology.

James Buxton

Offshore banking: untouched by recent scandal

Jersey still leads

EFFECTS OF the October 1987 crash still show in the financial sectors of the three UK offshore financial centres, Jersey and Gnernsey in the Channel Islands, and the Isle of Man.

The rapid growth of unit trust and other portfolio management business has been stifled. Yet pure banking has in some respects gained. Whereas, before the crash, scarce resources of labour and office accommodation were being diverted into the more profitable securities business, more recently deposit-based activities have regained momentum, helped by the sharp rise in sterling interest rates.

Meanwhile, the UK offshore banking industry has gained confidence from its ability to escape contamination from the latest offshore financial scandal, the collapse of the Gibraltar-based investment group Barlow Clowes International.

The Isle of Man regulators showed that they had been alert enough to resist an attempted takeover of a Manx bank by Peter Clowes, owner of Barlow Clowes. His attempt within the past year to buy the Douglas-based Celtic Bank was blocked by Jim Noakes, the island's banking supervisor.

The contrast with the traditional style of regulatory approach has been underlined by the reopening of an old Manx wound, the £40m collapse in 1982 of Savings and Investment Bank. The new Manx government which came to power last year decided to attack the unresolved problem, and a number of criminal charges have recently been laid. The questions of compensation for depositors and the responsibility of the supervisors of the time are also bound to be raised.

"The publicity is not going to be welcomed," admits Mr Noakes. But he claims that the new regulatory regime is quite distinct from its predecessor.

"The island is perceived very differently now," he suggests.

Jersey remains easily the most important of the three offshore banking centres. According to Colin Powell, the island's Economic Adviser, deposits are on a firm upward trend. After a couple of years of stagnation there was a rise of £1bn to some £27bn in the year to April, and further buoyancy has been experienced since then.

The growth is more significant than it looks, because commercial syndicated loan business is actually being run down. This decline has been offset by rapid growth in personal banking business, which carries higher margins.

Guernsey has also seen a pick-up in bank deposits after a disappointing 1987, when deposits actually fell in sterling terms – perhaps largely because of the fall in the dollar, in which a high proportion of deposits is denominated.

From some £9.5bn at the end of 1986, Guernsey deposits eased to just under £9.4bn last March, but the figure leapt to an all-time high of £9.925bn by the end of June. As for the Isle of Man, in April-June this year it achieved its biggest-ever quarterly increase of £237m, reaching a total of £4,075m.

These growth figures are the result of organic expansion rather than the setting up of new offshore institutions. Even the Isle of Man is now becoming rather crowded, and Jersey and Guernsey have long been bnrating at the eeams, although even the Channel Islands do not like to say they are full.

The main recent development has been the appearance of several of the UK building societies, seeking to attract offshore deposits. The Halifax and the Abbey National have set up in Jersey, the Bristol and West has moved into Guernsey, and there have been so far unfulfilled rumours of the takeover of the local Guernsey Savings and Loan by a mainland building society. Meanwhile, four other building societies – inclnding the Nationwide and the Leeds – have set up in the Isle of Man.

Otherwise, Jersey has recently seen the arrival of Swiss Bank Corporation through the takeover of a local concern, Guernsey has picked up a branch of the Swiss subsidiary of Republic National Bank of New York, and the Isle of Man has pulled in the Royal Bank of Canada. Jersey has about 43 separate banks, Guernsey boasts 53 with full licences, and the Isle of Man some 46 (plus 11 building societies or deposit takers).

But this is not a period when most international banks are seeking expansion of their networks. Moreover the UK offshore centres are all now in a position to be fussy. "We are only interested in talking to the top 20 or 30 banks in the world for a physical presence," emphasises John Roper, who heads the staff of Guernsey's new Financial Services Commission.

"We are not depressed that there hasn't been a steady influx of banks. It reflects the current climate," says Jim Noakes, the Manx regulator.

However, not everywhere is entirely quiet. Jersey's Colin Powell hints that one or two interested banks are in negotiation. "There is certainly a very keen interest in the island at present," he suggests.

Whether the newcomers will get into Jersey will depend on just what they have to offer the island. Generally, it wants to broaden its connections so as to gain access to new kinds of business.

So Jersey is unlikely to welcome any more mainland building societies. But German banks are under-represented and Japanese banks are completely missing, so applicants from those countries could expect a sympathetic hearing.

Barry Riley

Eyes on the mid-market

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be below £10m. All four emphasise that cut-off points are flexible.

Barclays and NatWest share the lead in market share (estimates vary around 26-27 per cent), followed by Midland (18-20 per cent) and Lloyds (14-17 per cent). Some way back come the Royal Bank of Scotland and the TSB.

Lloyds has opened 60 offices for its commercial service, and plans a network of 100. Its policy is to keep the new centres separate from the branches, and new premises have been acquired to house them. Each office has a team of between three and 17 account officers managing from 40 to 60 accounts each.

Barclays, by contrast, has opened its business centres in existing branches. Among its reasons are: continuity of relationship, and a wider geographical spread than the other banks can achieve with only a third of the number of specialist branches.

In each branch, business is divided into two line streams: one to handle business customers, the other to concentrate on personal customers. This reflects a restructuring of the bank at the beginning of this year, when the corporate and personal side were split.

NatWest's centres are separate from the branch: 50 are on-stream, with 80 planned by the end of the year. By the end of 1989 the number will rise to 100. Branches are incorporated in the new structure through the concept of linked and lead branches. Although the business relationship is shifted to the corporate banking centre, the customer may also be *encouraged to move his* accounts from a smaller "link" branch to the local "lead" branch.

The Midland has opened 62 corporate banking centres, and plans to have 80. They, too, are separate from the branch network, though some share premises with existing branches.

The TSB is new to the game, having been exclusively a personal savings bank until 1982. It is creating 300 commercial centres, able to service business customers, and will be targeting the middle market by turning 100 into key commercial centres, where special expertise and relationship banking will be concentrated. Three have been inaugurated, with 18 due on-stream during the next six months.

The Royal Bank of Scotland already has 40 per cent of the middle market in Scotland, and only 300 branches in England; so, for different reasons in either country, it has not tried to follow the others in setting up new commercial centres. Its strategy for the medium-sized market-place includes specialised products such as its Royline electronic banking system; leasing, franchising and licensing services; and great attention to developing relationships with development agencies, new towns and local councils.

The cost of entry to the mid-sized market means that outsiders find it hard to break in. Three years ago Citibank opened two regional offices, but closed them in February this year after finding that the business "had not developed as envisaged". However, they and other City-based foreign and UK merchant banks still recognise the importance of the market-place and work for a share, usually as a second bank to a UK clearer.

British merchant banks have always been interested in medium-sized corporates, to which they can offer specialised (and expensive) services such as corporate finance advice. Several, however, hope to provide a range of lending and other banking services, to establish broad-based relationships.

Hambros, for example, is very interested in establishing a full banking relationship with dynamic middle-sized companies.

Rothschild has opened branches in Manchester and Cardiff, and is considering further regional expansion.

Sean Heath